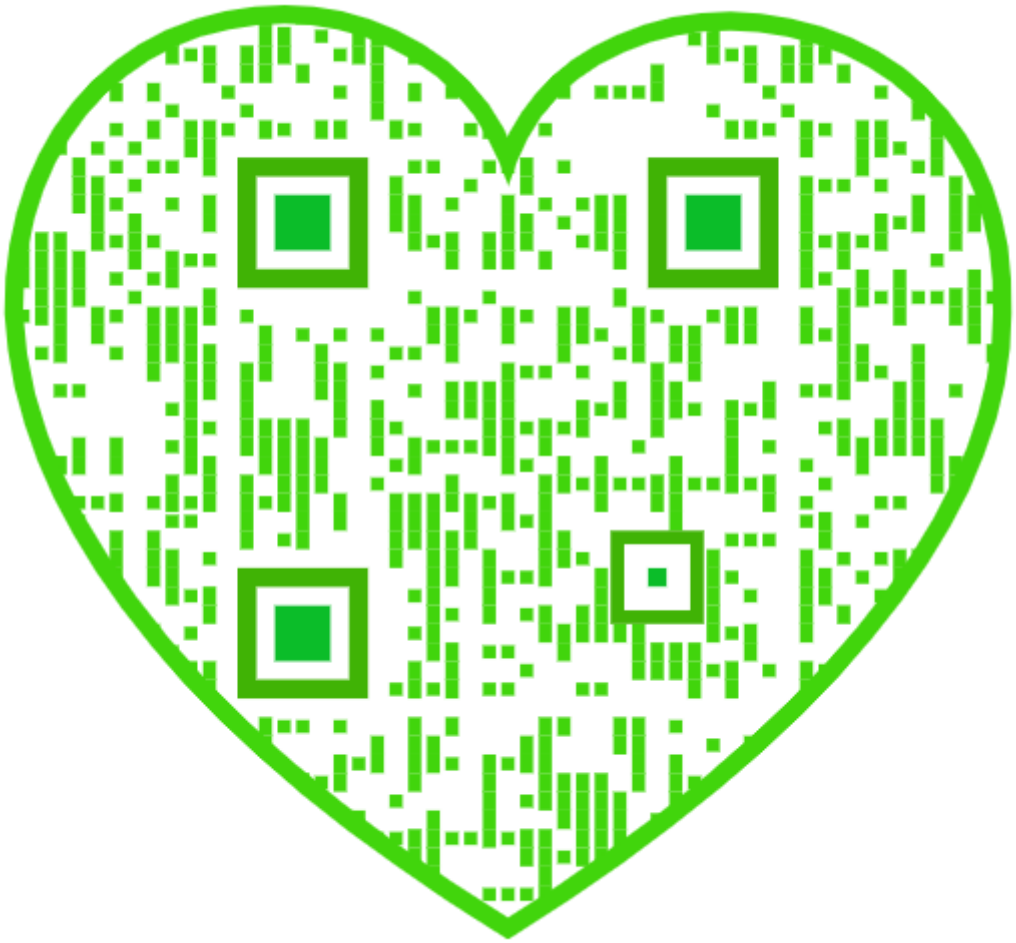

THE A B C OF BANKS AND BANKING.

NELSON'S

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VOLUME IV.

The A B C of Banks and Banking

BY
GEORGE M. COFFIN

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PREFACE.

THE object of this little volume is to give to the public a simple and concise explanation of the principles and practice of banking in the United States. It is designed to appeal to the reader outside as well as inside of a bank. It is by no means the last word or every word about banking. It may be said that it is a primer covering a field that has hitherto been somewhat neglected. In view of the growth of commercial and economic education the author hopes that the book will be serviceable to teachers and students as well as business men.

G. M. C.

Nov. 1, 1901.

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THE ABC OF BANKS AND BANKING.

CHAPTER I.

Banking in General.

The general term "Banking" is applied to the business of dealing or trading in money, checks, drafts, promissory notes, bonds, mortgages and other printed or written obligations for the payment of money or its equivalent. By "money" is meant gold, silver, nickel and copper coin, Treasury certificates for gold and silver coin, Treasury notes and National Bank notes. Another term for this is "cash" or "currency," and the term "funds," when used, means not only money, cash, or currency, but checks, drafts, and other written or printed instruments which can quickly and easily be converted into money. This business, like all others, is done for the purpose of profit, mainly derived from the interest or percentage paid for the use of banking funds by those who borrow or "hire" them.

Banking in the United States is done either by firms or individuals called "private bankers," or by corporations, made up by aggregations of individuals, or other parties, to do business either as (1) commercial banks, (2) savings banks, or (3) loan and trust companies, each of which does a different kind of banking, to be defined in the next chapter.

The funds contributed to the business of banking by the private banker or bank are called "capital," or "capital stock." In the case of a corporation, this capital stock is

contributed by the "shareholders," or "stockholders," the contributions in each case being represented by a certain number of "shares," usually of $100 a share each, but sometimes for smaller amounts.

This capital, which may be increased or decreased from time to time, under certain conditions, is in the nature of a permanent investment, the profits arising from its use going, of course, to the owners or shareholders. It serves, also, as a protection to any creditors the bank may have in case of loss incurred on any of its loans or other investments, the loss, of course, falling on the shareholders, who take all the risks of profit or of loss arising from the business. In addition to the capital stock, a large proportion of the funds used in banking consists of "deposits," or funds "deposited" or placed in the bank for safe keeping by the "depositors." In the case of "mutual savings banks" (which have no capital stock), the business is done entirely with the "deposits."

The relation between the bank and the depositor is that of debtor and creditor; the bank, undertaking the safe-keeping of his funds, stands ready to repay him a part or the whole amount of his deposit, either on demand or at some future date, as may be agreed between the two parties. But in safe-keeping these deposits the bank is always at certain expense in providing a banking office, with proper vaults or safes to protect its valuables from loss by fire or theft, in paying officers and clerks, and for books, stationery, postage and other expenses necessary to conduct the business. In consideration of this responsibility and expense, the bank is permitted by law to loan out or otherwise invest a certain

proportion of its deposits, the proportion not so invested being called the "reserve" against deposits. This reserve consists either entirely of cash or partly of cash and partly of deposits in other banks, from which cash can usually be obtained on short notice.

As a rule a part of the profits of banking is paid out to the shareholders in "dividends," or divided among them semi-annually or quarterly, but usually a part of these profits is retained by the bank, and is then called either "undivided profits" or "surplus fund," the theory of this being to keep on hand a fund besides the capital stock from which any unusual losses incurred in the business may be paid without impairing the capital stock.

Another way in which a bank sometimes procures banking funds is by the issue of what are known as "circulating notes." At present only National banks, organized under United States law, are permitted to issue such notes, and in the following manner: The bank purchases United States bonds in the open market, so investing some of its banking funds in the bonds, which it deposits with the United States Treasury as security for circulating notes, furnished by the Government, equal to the par value of the bonds, which notes it can pay out to its customers as money. In effect, the Government makes the bank a loan of these notes on the security of its own bonds, which the Government holds as security. Should the bank fail, the Government sells the bonds and uses the proceeds to pay the holders of the circulating notes as they are presented for payment or "redemption." While the bank notes issued under this plan are as good as the

Government itself, still the plan has the effect of slightly decreasing the ability of the bank to lend money or credit. To illustrate this, if a bank buys $100,000 in United States 2 per cent. bonds and pays $106,000 for them, deposits them with the Treasury and gets $100,000 in bank notes, it will have $6,000 less banking funds to lend or invest than if it had not taken out the circulation. The bank receives from the Government interest on the bonds deposited and interest on the bank notes which it loans out or invests, but, on the other hand, has to pay a slight tax on the circulation, and some expenses for "redeeming" its notes and renewing them when they wear out, so that the net result is a profit of from one-half of one per cent. to one per cent. greater than if the bank had not invested its money in the bonds and taken out the circulation.

The various sources from which a bank derives its funds or "resources" for doing business are, therefore:

1. *Capital, or capital stock;*
2. *Deposits;*
3. *Accumulated profits—either surplus or undivided profits, or both;*
4. *Circulating notes issued and outstanding.*

The aggregate of these is sometimes called "banking power," or the ability to do a banking business.

The chief business of banking is the lending or loaning of money or funds, called also the "granting of accommodations," or "of credit." It is generally supposed that most of the transactions in banking are made in actual money of some kind, but this is a popular mistake. Statistics from

the most reliable sources show that the "deposits" made in a large number of banks on a given day consisted only of from five (5) to ten (10) per cent. of actual money or currency of any kind, while from 90 to 95 per cent. consisted of checks, drafts, or other equivalents of money, called sometimes "instruments of credit." Illustrating the extent to which banking is done on credit is the fact that in 1900 the total "resources" of all banks in the United States aggregated $12,000,000,000, while the whole stock of money of all kinds in the banks and outside in circulation was but $2,000,000,000, or only one-sixth the amount of the total resources.

So in banking the lending is more of credit than of money, and whoever borrows this money or credit gives the bank some written evidence of his indebtedness, either a promissory note, a draft, a bond, a mortgage, or some other promise or obligation which will be more fully described elsewhere. While some of this credit is granted on the simple written "promise to pay" of the borrower, a large part of these credits or loans is "secured" by different kinds of property, like stock certificates, bonds, chattel mortgages, or other forms of what is known as "personal property" of a movable nature, or by "real estate security," the value of which latter rests entirely or largely on land, or "real estate." Security of any kind given for money borrowed is usually called "collateral," or "collateral security."

Another function of banking is the making of "collections" for its customers, who lodge with the bank checks, notes, drafts and other obligations payable at cities and other

places away from the bank. These are sent to other banks, which get payment for them and return the funds collected or "remit the proceeds" to the bank which sends them. Usually a small percentage, varying from 1-20th to 1-4th of 1 per cent. is charged for this service, the bank sending them and the bank collecting them usually dividing the percentage or discount paid by the owner of the "collection items."

The collection charge is usually based (1) upon the cost of "transferring" funds, by express or otherwise, between two points, and (2) a charge for interest for the use of money advanced on the "collection item" while it is "in transit" between the two banks handling it.

Intimately connected with the "collection" business is that of buying and selling "exchange," and in this the banks generally perform a very valuable public service, for they furnish the facilities for safely sending or "remitting" funds from one part of the country to another.

This business of making "collections" and "buying and selling exchange" all grows out of business transactions between people in different parts of the country or of the world who, by buying or selling to each other, make "exchanges" of their products. One party in Texas, California or Illinois will buy goods from another in New York or Boston, or a party in New York or Boston will buy cotton in Texas, or wheat in Illinois, or fruit in California, and all the checks or drafts or notes by which the buyer settles for his purchases with the seller are called in general terms "bills of exchange" or "exchange," and are usually handled or collected by the banks.

The details showing how this exchange business is done will be given in an appropriate chapter.

One other function of banking is the borrowing of money or funds by the bank should this ever become necessary. This power is exercised to procure funds in addition to its capital, deposits and circulating notes, with which to grant additional loans or credit to its customers, and again, when a bank has a sudden and unusual demand for funds from its depositors. In the latter case it is a matter of self-preservation, for if the bank were not to meet such legitimate demands it would be insolvent and would have to cease business. So it does the best and only thing it can to save its business. It borrows funds, usually from some other bank, either with or without the collateral security of its assets, uses the funds to meet the demands made, stops lending money or credit, and collects enough from its loans or other investments to pay off the borrowed money.

This power to borrow money should always be reserved for emergencies and not habitually used to procure banking funds in the normal and ordinary course of business.

Banks are usually required by law to publish, from time to time, statements or reports of their condition, for the information of the public who make deposits or deal with them in any way, and of their shareholders, who have their money invested in the capital stock.

These statements on one side show the "liabilities" of the bank, or the amounts for which it is liable or indebted to various parties.

On the other side they show the "assets" or "resources"

of the bank, or the various forms in which its funds are invested.

The "liabilities" usually consist of:

1. *Capital stock, surplus fund and undivided profits,* for which the bank is liable to the shareholders or stockholders to whom they belong.
2. *Deposits of all kinds,* for which the bank is liable to the depositors who placed them with the bank.
3. *Circulating notes outstanding,* for which the bank is liable to whoever holds or owns the notes issued by the bank.
4. *Borrowed money of any kind,* for which the bank is liable to the party or parties from whom it has borrowed any funds.

All the parties, except the shareholders, to whom a bank is liable or indebted, are called "creditors" of the bank.

The "resources" or "assets" usually consist of:

1. *Loans and discounts,* represented by notes, drafts, or any such instrument upon which funds have been loaned out by the bank.
2. *Bonds, stocks, real estate mortgages,* or any "securities" of this kind which are owned by the bank as investments.
3. *Real estate which the bank owns,* such, for instance, as the building in which it does business, or such as it has been compelled to take in payment of loans made on security of real estate.
4. *Amounts due from other banks and bankers,* consisting of deposits made with them, or amounts due for "collections" sent them.

5. *Cash,* consisting of money of any kind on hand in bank, and *"cash items,"* consisting of checks on other banks in the same place, or any other items which can readily be turned, or "converted," into cash or its equivalent.

Sometimes a bank sustains losses in its resources or assets through ill-judged investment of its funds by its managers, or the dishonesty of its officers or employes, to such an extent that it is unable to pay its liabilities to creditors. In such a case the law creating the bank usually provides for the appointment of an officer, called a "receiver," who takes charge of all its affairs, collects all debts due to the bank, and pays off the creditors pro rata, either in full of their claims or as far as the funds realized or collected from the assets will go. If anything is left after the creditors are paid, the remainder is divided among the shareholders, but if the assets do not yield enough to pay the creditors in full, the law usually provides for collecting a pro rata amount from each shareholder sufficient to make up the deficiency, up to an amount not exceeding the par value of the shares held by the stockholder.

This is called making or "levying an assessment" on the stockholders.

The payments made to the creditors are called "dividends," and the bank is said to have "failed," or to be "insolvent," because its assets can not be "liquidated," or quickly turned into ready money with which to pay off its creditors.

Frequently the shareholders of good, or "solvent," banks wish to stop doing business and withdraw the funds invested

in the stock. In such a case the stockholders take a vote on the question, and, usually, if two-thirds of the total number of shares vote for it, the bank goes into "voluntary liquidation," which means that it pays off its creditors in full and divides what is left after this among the shareholders.

The banking system is greatly developed in the United States. Estimates made by the Comptroller of the Currency in his report for 1899 show that there were then nearly 13,000 banking institutions of all kinds in the United States, with an aggregate of resources, or "banking power," of over $12,000,000,000. This "power" is greater than that of the whole of Europe, including Great Britain.

Of this total about $7,500,000,000 consisted of "deposits" made by about 13,000,000 individuals, firms and corporations, known as "individual deposits." About $2,400,000,000 of these deposits were made in "savings banks" by some 6,100,000 depositors.

These facts and figures illustrate what great and valuable service is rendered to the public by banking institutions in safe-keeping its funds, either such as are saved from earnings by economy and thrift, or are temporarily idle; and, at the same time, in loaning a portion of them out, or otherwise employing them, so that all great as well as small undertakings may be carried on for the benefit of society.

Besides the safe-keeping of deposits and the making of loans and other investments, the commercial banks render a very great public service in furnishing the means and machinery for making "exchanges," by which small and large sums of money can be safely and quickly sent to any part of the United States or of the world.

CHAPTER II.

Various Kinds of Banking.

As stated in the first chapter, the business of banking in the United States, where it has had the widest and highest development, is conducted by institutions which may properly be classified as follows:

1. *Commercial banks;*
2. *Savings banks;*
3. *Loan and trust companies.*

Commercial Banks.

The business usually done by and properly belonging to "commercial banks" may best be defined by the following extract from the National Bank Act, section 5136, paragraph 7, describing the "incidental powers" which may be exercised by any bank organized under the laws of the United States, viz:

> "To exercise, by its board of directors, or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; by receiving deposits; by buying and selling exchange, coin and bullion; by loaning money on personal security, and by obtaining, issuing and circulating notes according to this title," or law.

A National bank may also buy and own real estate, to be used as a banking house or office, but it cannot buy it or take a mortgage on it, except to save itself from loss on a loan previously made in good faith.

The business of commercial banking is, to a limited extent, done by "private bankers," but chiefly by stock corporations organized either under United States laws, which are uniform for all National banks, wherever located, or under State laws, which vary in the case of each State.

The management of National and State banks is entrusted to officers, called "directors," elected annually by the shareholders, each share counting as one vote.

The powers and duties usually prescribed for directors may best be described by the following extracts from section 5136, National Bank Act:

"Par. 5. Officers.—To elect or appoint directors, and by its board of directors to appoint a president, vice-president, cashier, and other officers, define their duties, require bonds of them and fix the penalty thereof, dismiss such officers or any of them at pleasure, and appoint others to fill their places.

"Par. 6. By-Laws.—To prescribe, by its board of directors, by-laws not inconsistent with law, regulating the manner in which its stock shall be transferred, its directors elected or appointed, its officers appointed, its property transferred, its general business conducted, and the privileges granted to it by law exercised and enjoyed."

One of the chief functions of "commercial" banks is to

receive deposits for safe-keeping from parties who have funds for which temporarily they have no use, but which they may need at any moment for some purpose; such, for instance, as the funds that individuals, firms or corporations need to have on hand for the payment of current expenses, or for goods bought, or other such purposes. Such parties are constantly receiving sums in payment of goods sold, services rendered, or for interest or dividends paid on investments, and these items of income, as received from day to day, are deposited with the bank for safe-keeping, to be withdrawn from time to time, as they may be needed to meet disbursements for various purposes.

Where a bank receives deposits of this nature it must be prepared to repay its depositors on demand at any time, and for this reason it cannot safely lend out or invest such funds except in loans repayable on demand, called "call" or "demand" loans, or in those repayable in one, two, three, or four months. As a rule, a commercial bank which retains the confidence of its depositors can count, in times of normal business, upon having a certain average aggregate amount of deposits on hand, a certain proportion of which it can safely lend out for periods of time not exceeding four months usually. Commercial banks, from the nature of their deposits, must always have a certain proportion of these on hand in actual currency or cash, or part cash and part on deposit with other banks. This cash fund is called "reserve" against deposits, and the percentage varies in different locations. Banks in smaller places are not required usually to keep more than 15 per cent. on hand, although they custom-

arily keep more, while National banks in larger financial centers, like New York, Chicago and St. Louis, are required by law to keep at least 25 per cent. in actual cash on hand. The reason for this is to provide for meeting any unusual withdrawal of deposits at any time.

Formerly it was rather the exception for commercial banks to pay any interest on deposits, but in late years, owing to the competition between these banks and that from loan and trust companies, commercial banks are compelled in many cases to allow a small rate of interest on deposits to keep their business, and in course of time this will probably be the rule rather than the exception.

Besides the receiving of deposits and the making of loans for short periods of time, an important feature of commercial banking is the making of collections for customers, and the buying and selling of "bills of exchange" on other places, which will be more fully explained in another place.

National banks also issue notes to circulate as money, referred to in the first chapter, and more fully described in a separate chapter, and the borrowing of money when necessary is a function which may be exercised by all commercial banks.

In case of losses which exceed any surplus or profits on hand, and so use up or impair the capital stock of a bank to any extent, shareholders in National and other commercial banks are liable to pay an "assessment" on their stock sufficient to make the capital good, or restore it to the original amount, but this liability never exceeds the par value of the stock.

If the losses exceed the surplus and undivided profits, and are so great that the shareholders are unwilling or unable to pay an assessment, then the bank must be closed up, either by "voluntary liquidation," in case it is able promptly to pay its creditors, or by being placed in the hands of a receiver, who converts the assets into cash, using same to pay off the creditors, distributing the remainder, if any, to the shareholders. In case the assets do not realize enough to pay the creditors, then a ratable assessment is made on the shareholders for enough to do this, but not exceeding the par value of stock in any event.

Savings Banks.

The business done by these banks is confined to the receiving of deposits in small sums, usually limited not to exceed a certain amount from each depositor, upon which deposits interest is paid at rates varying from 2 to 4 per cent. per annum.

Some of these banks, known as "stock savings banks," are organized with capital stock, which participates in the profits over and above the interest paid on deposits, but the greater part of the business is done by "mutual" savings banks, conducted entirely for the benefit of the depositors, who receive in the form of interest all the profits made over and above the necessary expenses, and a moderate portion of the profits is laid aside in a surplus fund to provide for any unexpected losses which might occur.

"Stock" savings banks are managed usually by directors, or trustees, chosen annually by the shareholders, but the management of "mutual" savings banks is usually entrusted to a board of trustees, composed of the organizers or incorporators of the bank, and continuing indefinitely thereafter, vacancies occurring from death or disqualification being filled by the surviving members of the board. These trustees have the power to appoint the officers and clerks to conduct the business, and, within the limitations of law, to prescribe how the affairs shall be managed. No trustee is allowed to receive any compensation whatever for his services, unless employed regularly as an executive officer, nor is he allowed to borrow any of the funds of the bank, nor to be in any way indebted to it.

The profits are made chiefly by lending out the deposits on the security of real estate estimated to be worth twice as much as the amount loaned on it; also by purchasing for investment United States bonds and bonds issued by States, counties, cities or towns. To a limited amount they are sometimes permitted to invest in railroad bonds and stocks and in bank stocks.

Deposits in savings banks, unlike those in commercial banks, are made with the intention of allowing them to remain for a certain length of time, and in this view the funds are largely invested in loans on real estate, which are usually prohibited to commercial banks because such investments cannot ordinarily be quickly converted into cash wherewith to pay off depositors if they desire to withdraw their funds. To provide against any sudden withdrawal, deposits in sav-

ings banks are usually made under the distinct agreement with the depositor that the bank is entitled to 30 or 60 days' notice from him of his desire to withdraw his deposit at the end of that time. This is to afford the bank some time within which to sell its securities, or otherwise arrange to provide the cash to meet demands of depositors. This rule operates sometimes, too, to check any panic arising among the depositors, from idle rumor or otherwise, as to the safety of their deposits, for it gives time for proving the falsity of the rumor and re-establishing confidence among the depositors.

The business of a "stock" savings bank can usually be discontinued, if it is in a sound condition, by a vote of two-thirds of the shares, or of a "mutual" savings bank by a vote of two-thirds of the number of trustees. In case of the unsoundness or insolvency of a bank of either class, a receiver may be appointed, by the courts or by other provision of law, to collect its assets and pay off the depositors, as in the case of a "commercial" bank.

Loan and Trust Companies.

The business done by loan and trust companies is a combination of that done by commercial banks and by savings banks, together with other kinds of business not allowed to banks of these other two classes.

Loan and trust companies receive deposits payable either on demand or on time, paying a low rate of interest thereon

(from 2 to 3 per cent.), and are not required to keep any stated percentage of their deposits on hand as a "cash reserve," as is required of commercial banks. As a rule, they keep very little actual cash on hand, but deposit some of their funds on demand in commercial banks, which usually pay about 2 per cent. interest for the use of these deposits.

As to investments of their funds, loan and trust companies are in some cases required by law to invest an amount equal to their capital stock in bonds and mortgages secured by real estate, or in stocks or bonds of the United States, or those issued by any county, city or town of the State in which the company is located, or issued by such State itself. They are at liberty to invest their deposits in the same way as their capital, or in any other stocks or bonds secured either by real estate or personal property, and also to make loans on the security of either real estate or personal property.

In practice, only a small proportion of their loans is made on real estate security, the bulk of their investments consisting of loans on collateral security of stocks and bonds other than real estate, or of stocks and bonds and other securities purchased and owned.

Besides the business of receiving deposits and making such investments as have been described, loan and trust companies are permitted to act as trustees in various ways, viz., as trustee under any mortgage or bond issued by any municipality, body politic, or corporation, or to execute any other municipal or corporate trust; to act, under appointment of any court, as guardian, receiver or trustee of any minor, or as trustee or executor for the estates of deceased persons or

of lunatics, idiots, or habitual drunkards; to act as fiscal or transfer agents for any State, municipality, body politic or corporation, and in such capacity to receive and disburse money, and transfer, register and countersign certificates of stock, bonds, or other evidences of indebtedness. In fact, they are permitted to execute any trust of any kind whatever which might lawfully be executed by any person or corporation. They are also usually permitted to purchase, invest in and sell stocks, bills of exchange, bonds and mortgages and other securities, and to borrow money, but cannot issue bills to circulate as money. In some places these companies are allowed by law to receive upon deposit for safe-keeping, bonds, mortgages, jewelry, plate, stocks and valuable property of every kind, and to charge rent or hire for such safe-keeping; and, finally, to guarantee or insure persons holding titles to real estate against loss by reason of any defect in such titles arising from any unknown cause.

From these enumerated powers it will readily be seen that trust companies largely invade the limited field of legitimate commercial banking, and so constitute formidable competitors to banks of such class.

The business is done entirely by stock companies, each shareholder, as in the case of most commercial banks, being liable, in case of failure and loss, to an amount not exceeding the par value of the shares held by him.

The management is entrusted to a board of directors or trustees elected by the shareholders, whose term of office sometimes is for three years one-third of the whole number being elected each year.

In case of failure or insolvency, the affairs of the company are liquidated or wound up by a receiver, as in the case of commercial banks, who collects the debts of the company and applies the proceeds, as far as they will go, first to paying off the creditors, distributing the balance, if any, to the shareholders.

CHAPTER III.

CAPITAL STOCK: SHAREHOLDERS' RIGHTS AND LIABILITIES.

BEFORE a bank of any kind with capital stock can be organized, those who propose to organize it must first ascertain whether they can induce other parties to join with them in supplying the requisite amount of money for the purpose. All those who agree to do this are said to be "subscribers," and the first step to take, therefore, is to open a "list" of subscriptions, wherein the subscribers, by signing their names, agree to take a certain number of "shares," each share representing $100, or a smaller or greater amount, as fixed by law, and to pay in the money for same at or before a date named in the agreement, either in one amount or in several amounts called "instalments." With National banks the law requires that at least one-half of the capital must be paid in before the bank begins business, and that the remainder must be paid in five equal instalments monthly thereafter, or one-tenth monthly until the whole is paid in. All payments of capital stock should be made in actual money or the equivalent of ready money, and no promises to pay money at some future time should be accepted for this purpose. For each instalment paid, the subscriber should receive a proper voucher, or temporary receipt, stating the amount, the date of payment, and that it is the first, second, or other instalment paid. At the same time a book should be kept by the person or persons receiving these payments,

which will clearly show in an account with each subscriber the same data as is shown by his receipts.

After the bank is authorized by law to commence business and all instalments have been paid in, the subscriber should then surrender his temporary receipts, and in the place of these receive from the bank his "certificate of stock."

The following is the usual form for a certificate of stock in a National bank, and the "stub" to which it is attached, which may be adapted, by changing the name or "title" of the bank to the case of any State bank, stock savings bank, or loan and trust company:

No. _____

_____ Shares

Dated _____ 19__

Issued to

_____

of _____

Drawn this day under described Certificate

_____ 19__

_____

_____

Certificate surrendered and cancelled

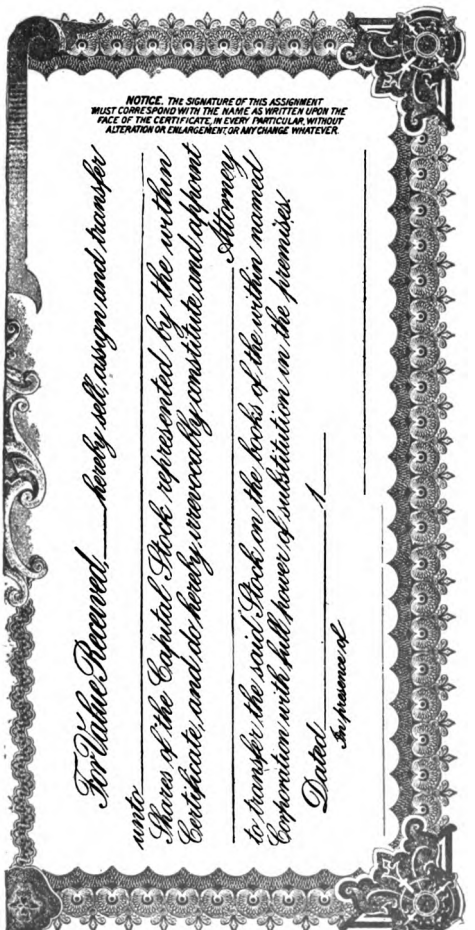
_____ 19__

STATE OF VERMONT
NUMBER
SHARES
The First National Bank of Orwell
PAID UP CAPITAL $ 50,000.00
500 SHARES $ 100 00 EACH.
This is to Certify that _____ is the owner of
_____ Shares of One Hundred Dollars each
of the Capital Stock of THE FIRST NATIONAL BANK OF ORWELL, transferable only on the
books of the Bank in person or by Attorney, upon the surrender
of this Certificate.
In Witness whereof the said Bank has caused this Certificate to be Signed by its
President and Cashier and sealed with the Bank's seal.
Orwell, Vermont, this _____ day of _____ 19__
Cashier
President.

These certificates and their "stubs" should always be printed in book form, and before the certificate is detached from the stub and surrendered to the shareholder, the proper memoranda should be made on the stub, and the shareholder should sign same as evidence that he received the certificate or authorize some person to sign for him. Both certificates and stubs should be numbered alike, from 1 upward, sequentially, so that each certificate will have a different and special number.

The certificates should be signed by two officers of the bank authorized by the directors to do so, usually the president and the cashier. In some cases a clause printed on the face of the certificate requires that the certificate, after being signed by the proper officers, shall, before being issued to the owner, be registered by some other corporation selected for the purpose, and countersigned by one of its officers. This is intended to prevent any improper or dishonest issue of stock.

After a certificate has been issued in proper form to a shareholder, it represents "personal" property owned by him, but as it stands in his name on the certificate and on the books of the bank, he must, if he wishes to sell it or otherwise dispose of it, "transfer" it to the new purchaser or owner by "assignment" on the back, in the following form, which he must sign in the presence of a witness:


NOTICE. THE SIGNATURE OF THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THE CERTIFICATE, IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT, OR ANY CHANGE WHATEVER.
For Value Received, hereby sell, assign and transfer
unto
Shares of the Capital Stock represented by the within
Certificate, and do hereby irrevocably constitute and appoint
Attorney
to transfer the said Stock on the books of the within named
Corporation with full power of substitution in the premises.
Dated
In presence of

After the certificate has been properly assigned by the former owner, it should be taken or sent to the bank and surrendered, and a new certificate, showing the name of the new owner, issued in its stead. Unless this is done, the bank can have no knowledge as to what persons are the actual owners of its stock and entitled to receive dividends thereon, or are liable to be assessed to make good any impairment of the capital by losses, in cases where the law attaches such liability to the shareholders, as to those in National banks.

When a certificate is surrendered it should be so mutilated or "cancelled" as to prevent its improper reissue, and should be gummed to the stub from which it was originally torn, as evidence that it is no longer outstanding.

Usually a meeting of shareholders is held once a year, for the purpose of electing directors and transacting other business, and on special occasions to vote upon such questions as an increase or a reduction of capital or of closing up the business of the bank, which is called placing its affairs in "voluntary liquidation."

As a shareholder frequently lives at such a distance from the bank as to make it inconvenient to attend meetings in person, he should in such cases select some person who will attend in person to represent him and cast his vote as he may instruct, and such a representative is called a proxy. In the case of National banks, no director, officer, clerk, teller or bookkeeper of the bank is permitted by law to act as proxy. The appointment of a proxy is usually made in the following form:

Proxy

JOHN WARD, Manufacturing Stationer, 25 John Street, N. Y.

Know All Men by these Presents

That I, _____

do hereby constitute and appoint _____

Attorney and Agent for and in name place and stead, to vote as proxy

at _____ of the _____

according to the number of votes I should be entitled to cast if then personally present.

In Witness Whereof I have hereunto set my hand and seal this _____ day

of _____ one thousand _____ hundred

Sealed and delivered in the presence of

_____

This form of proxy may give power to vote at any and all meetings of shareholders, or be amended so as to limit

the power to a particular meeting, to vote on a specified question.

Every shareholder is entitled to receive due notice, either by public advertisement in a local newspaper, or by mail, of any special meeting to vote on any such question as an increase or a reduction of the capital stock or voluntary liquidation, and where the law creating a bank does not specially prescribe this, the shareholder is usually entitled to receive such notice 30 days before the meeting is held.

To determine questions at such special meetings a vote of two-thirds the entire capital stock or number of shares is usually necessary, while in voting for directors, or to amend the articles of association or rules governing the general conduct of the bank's affairs, a majority, or one more share than half the capital stock, is required.

Where the law imposes additional liability upon shareholders and requires them to make good any "impairment" of capital stock caused by losses sustained on loans or other investments, or through the dishonesty of officers or employes, the National or State official charged with the administration of the law under which the bank is organized usually notifies the managing officers of the amount to be made good and the time within which the assessment must be paid in, and the officers, in turn, send out a written or printed notice to each shareholder, notifying him that an assessment has been made and that he must pay into the bank the amount of money representing his proportion within a stated time.

National bank shareholders are allowed three months'

time, after receiving notice of assessment, within which to pay it. The payment of such an assessment is voluntary with each shareholder unless a majority of the whole capital stock decides to pay, in which case the stock of any shareholder unwilling or unable to pay at the end of three months after receiving notice may be advertised for sale by the directors for a month, and sold at auction, at the end of that time, for an amount not less than the amount of the assessment. In such a case, title to the stock goes to the new purchaser, the former owner being entitled only to any excess over the assessment his stock may fetch at the sale.

In case a bank fails and an assessment has to be made to help pay its debts, such an assessment is compulsory on the shareholder, and is a legal claim against his estate in case he refuses to pay it voluntarily.

The minimum limit of capital stock required of National banks is based on population, as follows:

$25,000 in places with population not exceeding 3,000 persons.

$50,000 in places with population not exceeding 6,000 persons.

$100,000 in places with population not exceeding 50,000 persons.

$200,000 in places with population exceeding 50,000 persons.

As to State banks, the capital required is fixed by the laws in each State. In some States banks can be organized with as little capital stock as $5,000.

Anyone desiring to organize a National Bank can obtain

full information and instructions free upon application to the Comptroller of the Currency at Washington, D. C. Information as to the organization of State banks, savings banks, or loan and trust companies can also be had from the banking department of the State in which it is to be located, on application addressed to the capital of the State.

The officers of a National bank are required to keep a correct list of the shareholders of the bank, showing the address of each shareholder and the number of shares standing in his name, and this list is subject to inspection by any shareholder or creditor of the bank at any time during business hours of any business day.

CHAPTER IV.

UNDIVIDED PROFITS, DIVIDENDS AND SURPLUS.

BANKING, like every other business, is done with the object of making, or "earning," a profit on the capital or funds invested in the business.

There are different terms applied to these profits; for instance, before "expenses" for conducting the business are deducted, all profits made from various sources are called "gross earnings." When expenses are deducted from "gross earnings," the remainder is called "net earnings." But a bank usually incurs some losses on loans and other investments, in spite of all the care to be exercised, and when these are deducted from the "net earnings," the remainder is called "net profits." These two terms are sometimes used synonymously, and again in the National Bank Act, "net profits" is used, referring to the profits before deducting losses.

"Expenses" usually include such items as rent, taxes, salaries to officers, clerks and employes, books, stationery, postage, advertising, attorney's or counsel's fees, interest on deposits, and any other expenditures incurred in the conduct of the business.

"Losses" are incurred by the failure of borrowers to repay money borrowed from the bank, and also by the shrinkage in value of any real estate, bonds, stocks, mortgages, or any other form in which its funds may be invested, or sometimes through the theft or dishonesty of officers or employes.

"Gross earnings" are derived from interest received from loans and discounts, bonds and mortgages, from dividends on stocks owned, rents from real estate owned, and in the case of loan and trust companies, also from commissions or fees charged for executing any trusts, rent of safe deposit vaults, storage warehouses, or any other source.

A statement of "gross earnings," "expenses," "losses," etc., is usually made up by banks every six months, or semi-annually, on the 1st of January and the 1st of July, every year. Some banks select other semi-annual dates, and some make up these statements every three months, or "quarterly." These are usually known as "dividend periods," because "dividends" are then "declared" and paid if they have been "earned."

If the result of the statement warrants it, the directors who have the power to do this hold a meeting and "declare a dividend," or authorize the payment of a certain percentage of the capital stock, to be paid to the stockholders, or divided ratably among them.

These "dividends" are usually paid to the shareholders by checks payable to their order, called "dividend checks," mailed to the address of each shareholder.

Every bank prudently managed refrains from paying out all its net profits or earnings in dividends, and retains a part of these to create a "surplus fund." Usually the law requires a bank to do this, as, for instance, every National bank is required to set aside one-tenth of its net profits of each dividend period for the surplus fund before declaring a dividend, and to go on doing this until the surplus fund amounts

to at least twenty (20) per cent. of the capital stock. Evidently the theory of this is that as every banking institution is apt to encounter unusual losses in times of panic and depression of business, it should gradually accumulate a fund out of which it can meet such losses, without "impairing" or using up any part of its capital stock, which would require an "assessment" on the shareholders to make such "impairment" good.

This surplus, of course, belongs to the stockholders, and is really so much more capital used in the business for their benefit. Sometimes the "surplus" of a banking institution largely exceeds its capital stock, and in general the possession of a large surplus fund is regarded as evidence of the strength and good management of a bank, for it represents the accumulation of so much profits over and above the amount paid to shareholders in dividends, and serves as a measure of the "earning power" of the bank.

The net earnings of the National banks as a whole from 1894 to 1899 varied between 5 and 5.8 per cent. of their capital stock and surplus fund, and in 1900 rose to 8.2 per cent., reflecting the general prosperity of business shared by the banks.

In 1870 these net earnings amounted to nearly 12 per cent., and the fall to 8.2 per cent. in 1900 illustrated a general decline, due to the accumulation of capital for investment on the one hand, and, on the other, to the fierce competition for business between banking institutions.

CHAPTER V.

DEPOSITS; CHECKS; LAWFUL MONEY RESERVE.

WHEN money is placed in a bank for safe-keeping, or "deposited," it is usually received from the "depositor" by an officer called the "teller." If a bank does a small business, one teller both receives money deposited and pays it out when wanted, but where the business done is large enough to require this, deposits are received by one or more "receiving tellers" and paid out to depositors by one or more "paying tellers."

When a deposit is made, the depositor must make a memorandum of the amount and description of the items composing same on a blank, usually furnished free, in printed form, by the bank, like the following:

DEPOSITED IN THE

ALLEN NATIONAL BANK,

FAIR HAVEN, VT.

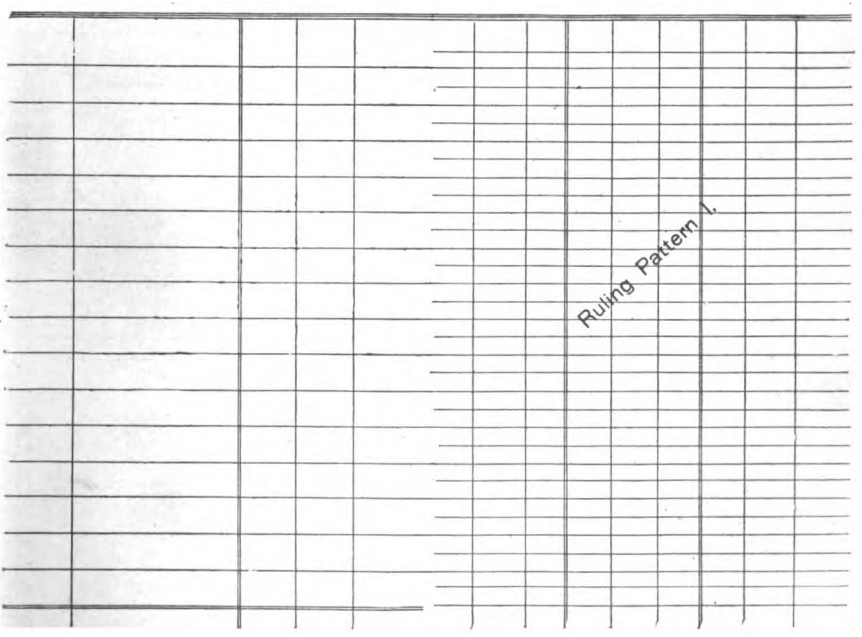
By.....

.....*190*—

PLEASE LIST EACH CHECK SEPARATELY.

	Dollars	Cents
Bills		
Gold		
Silver		
CHECKS		

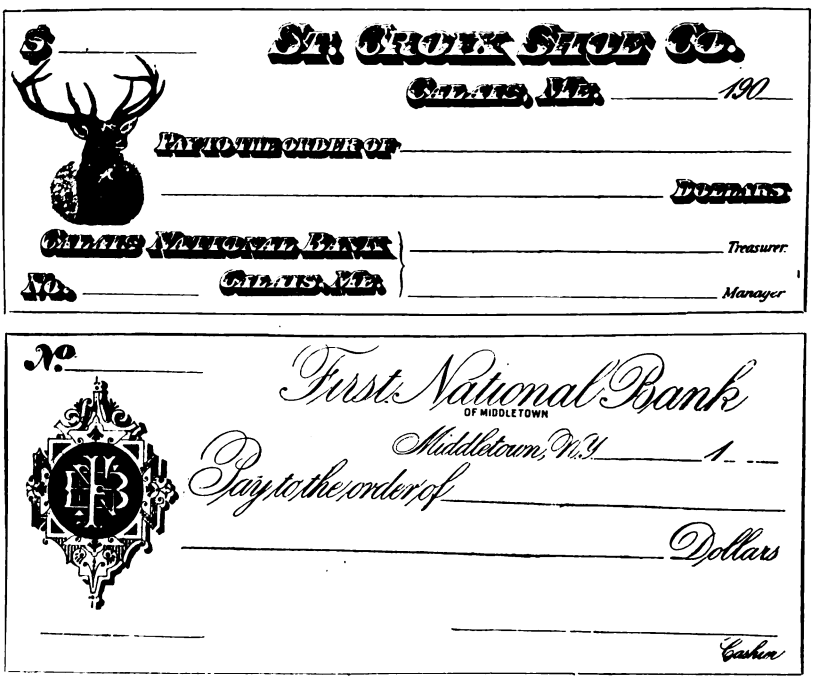
This is handed, with the deposit, to the "receiving teller," who counts the money and other items (if any), compares the amount he finds with the amount on the ticket, and if found correct, makes an entry of the amount on the left-hand page of a book furnished by the bank to the depositor when the first deposit is made, or the "account is opened" with the bank. This book, called the "depositor's pass-book," the only receipt or voucher for money deposited given by the bank, is usually like the following:



The amounts entered on the left-hand page represent deposits made at different dates, while those on the right-hand page represent the amounts received from the bank, or "drawn out" by the depositor.

Unless there is a special agreement to the contrary, it is understood that money deposited with a bank can be taken out, or "drawn," by the depositor, on demand, at any time during the business hours, upon the presentation of a written or printed order for a stated amount, signed by the depositor, or some person duly authorized by him to sign his name for this purpose.

This order on the bank is called a "check," usually made payable "to order," like either of the accompanying:



In order that the bank may be able to verify the genuineness of the signature signed to checks drawn by depositors, each person, when he makes his first deposit, is required to write his name as he proposes to sign it on the checks he is to draw, and his address, in a book kept specially for this purpose, or on a piece of paper sent by him to the bank, to be pasted in the "signature book."

The better plan, now in use, is a system of cards, upon each of which a depositor writes his signature and address, the cards being arranged alphabetically in a box made for the purpose, and secured in same by a metal rod running through a hole punched in the lower edge. The rod, secured to the box, serves to bind the cards together, but loosely, so as to admit of easy reference to same in alphabetical order, as follows:

AUTHORIZED SIGNATURES OF

.....

For the NATIONAL BANK of NEW YORK

Introduced by Address

LIBRARY BUREAU, 93002

A check should be presented for payment to the "paying teller," who, after satisfying himself that the signature is

genuine and not forged, and that the signer has enough money in bank, or "to his credit" on the bank's books, pays it to the person presenting it, if the check is payable "to bearer," regardless of who he is, unless he has good reason to believe that it has been stolen or improperly obtained by the person presenting it, or the bank has been instructed by the depositor drawing the check that he does not wish it paid. If the check is made payable "to the order" of any party, the teller, before paying it, requires the person presenting it to "identify" himself, if he is not personally known to the teller, and to endorse it by writing his name on the back. To "identify" himself it is necessary for the endorser of the check to get some person who knows him and is also known to the teller to state that he is the person to whose order the check is payable. This is the only way in which a bank can protect itself from fraud and dishonesty on the part of any person improperly coming into possession of a check drawn to the order of some other person.

Nature of Checks.

A check on a bank is always payable upon presentation during business hours, and the bank upon which it is drawn is under no obligation to pay it unless the person drawing it has the *full* amount named in the check standing to his credit on the books of the bank.

If a depositor draws several checks, amounting in the aggregate to more money than he has to his credit, the bank should pay these checks in the order of their presentation,

without regard to their dates or numbers indicating the order in which drawn, until the amount to his credit is exhausted, and may refuse to pay those presented after this. So, also, where a customer, having an amount to his credit, issues a check, and afterward instructs the bank not to pay the check when presented, the bank should refuse payment, leaving it to the holder to collect his claim in some other way from the drawer of the check, or from the endorser if the check is endorsed.

Where payment of a check payable to bearer is refused by a bank, it is not necessary to have it protested, as in case of a note at maturity, but if the check is endorsed by some other party than the holder, then it should be formally presented at the bank and protested for non-payment in order to hold the endorser responsible for its payment.

The check is a most convenient and safe instrument for effecting payment of a debt, as when it is endorsed to the order of the party to whom the debt is due, it can with safety be sent by mail or otherwise to him, with the assurance that he will receive payment, for if the bank on which it is drawn pays it on a forged endorsement to anybody else, it must make the amount good to the real owner. Periodically a bank calls for the depositor's pass-book, "writes it up" and "balances" it. This is done by comparing it with the depositor's "account" on the bank's "individual ledger," which ought to show all deposits made and all checks paid for his account. If any entries of deposits are omitted from the pass-book, these are entered by the bank, and the amounts of all checks paid are also entered on the

opposite side of the pass-book. The entries made are then added up on both sides, and the total of checks being deducted from the total of deposits, the remainder shows the "balance" still remaining to the depositor's credit with the bank. The paid checks are returned, with the pass-book, to the depositor, who is usually required to give the bank a receipt for them, which also acknowledges the correctness of the amount of the balance remaining. On receiving these paid checks the depositor should examine them carefully to see if the signatures are genuine and that the amounts for which they were originally drawn have not been dishonestly altered or "raised" to a larger amount. These paid checks, when so returned, are really receipts for the money paid on them. So a check is not only a safe method of paying or remitting money, but when returned to the drawer is a good receipt for the payment.

Power of Attorney.

Sometimes, on account of the absence or disability of a depositor, especially if he is in some active business, it is necessary to delegate to some clerk or other person the authority to sign checks drawn against his account at a bank, and to perform other acts necessary in dealing with the bank. In such a case the depositor signs and executes a paper called a "power of attorney" in favor of another party, and files it with the bank. The following is a good form of "power of attorney":

POWER OF ATTORNEY.

KNOW ALL MEN BY THESE PRESENTS,

That

have made, constituted and appointed, and by these presents do make, constitute and appoint

true and lawful attorney for and in name, place and stead, to make and sign promissory notes, to make, sign and draw checks upon THE NATIONAL BANK OF THE CITY OF NEW YORK, to endorse for discount, deposit and collection to the credit of account in said Bank, bills of exchange, drafts, checks, promissory notes, orders and certificates of deposit, to endorse bills of lading, warehouse receipts and other evidences of title to merchandise; to borrow money on promissory notes and to secure the payment of the same by pledging the merchandise, or other property of , and generally to attend to banking business with said Bank, giving and granting unto said attorney full power and authority to do and perform all and every act and thing whatsoever requisite and necessary to be done in and about the premises, as fully to all intents and purposes as might or could do if personally present, with full power of substitution and revocation, hereby ratifying and confirming all that said attorney or substitute shall lawfully do or cause to be done by virtue hereof.

It being understood that this power of attorney is to be revoked only by notice in writing being served upon said Bank.

IN WITNESS WHEREOF, have hereunto set hand and seal the day of in the year one thousand nine hundred and

Sealed and Delivered in the Presence of

State of
County of } *ss.:*

BE IT KNOWN, That on the day of one thousand nine hundred and before me,

a Notary Public in and for the State of duly commissioned and sworn, dwelling in the personally came and appeared

to me personally known, and known to me to be the same person described in, and who executed the within Power of Attorney, and acknowledged the within Power of Attorney to be act and deed.

IN TESTIMONY WHEREOF, I have hereunto subscribed my name and affixed my seal of office, the day and year last above written,

Overdrafts.

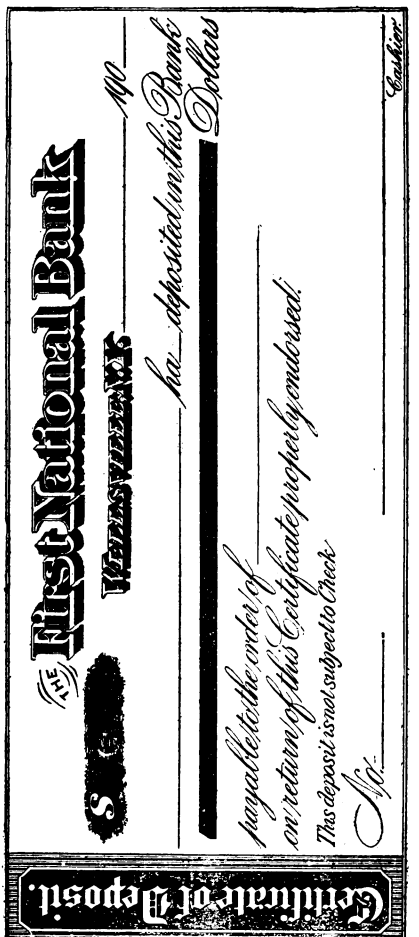
Sometimes a bank will pay the check of a customer when he has not the amount to his credit, and any amount so paid out is called an "overdraft." This is equivalent to making a loan to the customer, but it is a very objectionable form, for if the person receiving the overdraft refused to return the money so loaned, the bank, if compelled to enforce collection at law, would be under the necessity to prove that the person had received the money, which would not be necessary if it held a promissory note as voucher for the loan. No well-managed bank will permit overdrafts to be made, and no depositor should knowingly make one.

Certificates of Deposit.

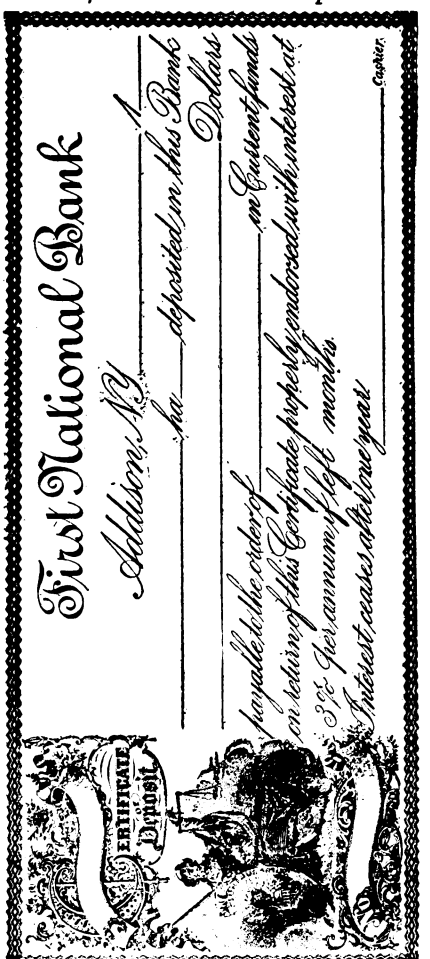
Instead of acknowledging the receipt of a deposit by an entry in a pass-book, a bank sometimes issues an obligation called a "certificate of deposit," by which it agrees to repay the money to the depositor, either on demand, without interest, or with interest if left a certain time, interest being forfeited if payment is demanded sooner, or at the end of a certain period, and not before, with interest at a stated rate.

The first two named are called "demand certificates," and the last a "time certificate," and are usually of the following form:

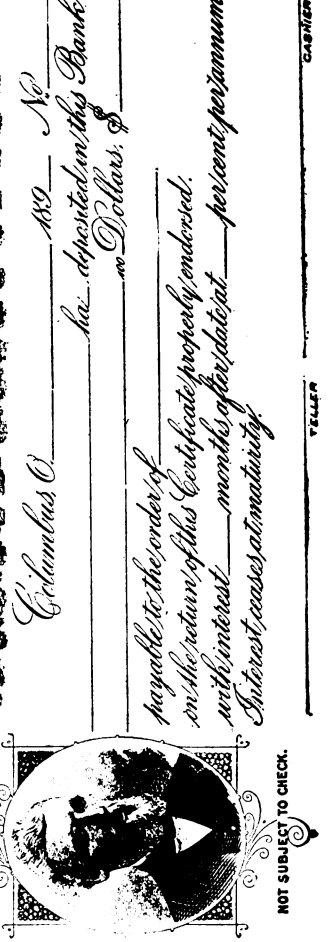
1. *Demand certificate:*



2. *Demand certificate with interest option:*


First National Bank
Addison, N.Y.
No. deposited in this Bank
Dollars
payable to the order of on Eastern funds
on return of this Certificate properly indorsed, with interest at
3% per annum if left months.
Interest ceases after one year
Cashier.
CERTIFICATE of Deposit

3. *Time certificate with interest:*

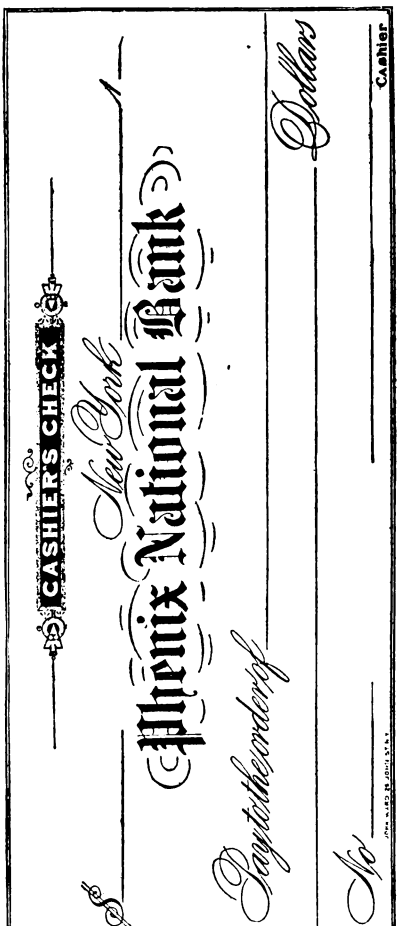

THE Merchants & Manufacturers National Bank
Columbus O. 189 No.
has deposited in this Bank
Dollars. $
no
payable to the order of
on the return of this Certificate properly endorsed.
with interest months after date at per cent per annum.
Interest ceases at maturity.
TELLER
CASHIER.
NOT SUBJECT TO CHECK.
CAPITAL GAINED OF LOST

A bank issuing certificates in the two forms first named is obliged to pay same whenever presented, but is under no obligation to pay a "time" certificate until the expiration of the period named in it.

A person to whose order a certificate is made payable may sell it or pass it on to some other party for collection by endorsing it, and when presented by such party, properly endorsed, should be paid by the bank issuing same, if due by its terms.

Cashier's Checks.

These partake somewhat of the nature of demand certificates of deposit, being vouchers for money deposited, issued in the form of a check drawn by the cashier on his own bank in the following form:

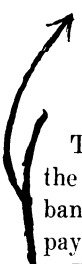

CASHIER'S CHECK
New York
Phenix National Bank
Pay to the order of
Dollars
No.
Cashier

Exchanges for Clearing House.

Where there are several banks in the same place, it happens, in the course of business, that the depositors of one bank will receive from their customers checks on other banks in the same place, and will deposit such checks, to be collected and placed to their credit. When this is the case, the banks usually form themselves into what is called a "clearing house," under an agreement to send a representative from each, to meet at a stated place on the morning of each business day, at a stated hour, for the purpose of "exchanging" all checks that each bank received during the previous day. The checks are separated by each bank and passed around until the representative of each bank has received all checks drawn on his bank. When this has been done, the amounts are added up, and if the total of such checks on his own bank exceed in amount the total of the checks on other banks brought by him to the "clearing house," then he is "debtor" to the clearing house, and must by a certain hour the same day produce the money to pay this difference. If, however, the checks on other banks received by his bank exceed in amount the checks on his bank, he is "creditor," and must later the same day receive money for the amount of the difference. It will be perceived that the amounts paid by banks that are debtor will be exactly sufficient to pay balances due to banks that are creditor.

Certifying Checks.

Sometimes when the holder of a check wishes to be satisfied that it is good and will be paid by the bank on which drawn when presented, he takes or sends it to the bank and has it "certified." The check is usually presented to the paying teller, who stamps it "Good through the Clearing House, Blank National Bank," and signs his name.



Lawful Money Reserve Form.

The amount of the check is then charged to the account of the depositor drawing same, and the effect is to make the bank liable for payment of the check when presented for payment.

By way of illustrating how the lawful money reserve of a National bank, required to keep 15 per cent. of its deposits on hand, is computed, the following copy of the form used in the Comptroller of Currency's office is here given:

TREASURY DEPARTMENT,
Office of Comptroller.—Form 333.
Reports—Q-12-1902—1,000.1

☞ Bank Directors should bear in mind that Section 5191, U. S. Revised Statutes, forbids a Bank to increase its liabilities by new loans or discounts, or to declare any dividend when its Reserve is below the legal requirement.

FORM B.—CALCULATION OF THE LAWFUL MONEY RESERVE OF NATIONAL BANKS LOCATED ELSEWHERE THAN IN RESERVE CITIES AND CENTRAL RESERVE CITIES.

No. of Bank ..... Report of the state of lawful money reserve of the .....

Located at ....., State of ....., at .....o'clock .....m.

....., 190

N. B.—If this accompanies a Report of Condition it should be signed by ....., *Cashier*;

If it accompanies a Report of Examination it should be signed by ....., *Examiner*.

ITEMS ON WHICH RESERVE IS TO BE COMPUTED.

LIABILITIES.

Due to National Banks									
Due to State Banks and Bankers									
Due to Trust Companies, etc									
Due from other National Banks									
Due from State Banks and Bankers									
Dividends unpaid									
Individual Deposits									
United States Deposits									
Deposits of U. S. Disbursing Officers									
Gross amount									

Should the aggregate "Due from" exceed the aggregate "Due to" Banks, both items must be omitted from the calculation

DEDUCTIONS ALLOWED.

Checks on other Banks in the same place									
Exchanges for Clearing House									
National Bank Notes									
Fifteen per cent of this amount ☞ is the entire Reserve required, which is									
Deduct 5 per cent Redemption Fund with Treasurer U. S.									
Net Reserve to be held									

ITEMS COMPOSING THE NET RESERVE AND THE DISTRIBUTION OF THE SAME.

Three-fifths of the Net Reserve is									
Items making up the same may consist of* Balances with following approved Reserve Agents, viz:									
Excess with Reserve Agents									
Deficiency with Reserve Agents									

Two-fifths of the Net Reserve is									
Items in Bank which may lawfully make up the same, viz									
Fractional Silver									
Silver Dollars									
Silver Treasury Cert's.									
Gold Coin									
Gold Treasury Cert's.									
Legal-Tender Notes									
U. S. Cert's of Deposit for Legal-Tenders									
C. H. Cert's for Coin and Legal-Tenders									
Excess in the two-fifths Reserve held									
Deficiency in the two-fifths Reserve held									

RECAPITULATION.

Excess in the entire Reserve held, $ ..... Deficiency in the entire Reserve held, $ .....

* If reciprocal accounts are kept with reserve agents, only the net amount due from such agents is available for reserve. 5—1902

Bank officers will always insert in their Reports of Condition one of these forms properly filled in, and Bank Examiners will do the same in their Reports of Examination.

CHAPTER VI.

Issuing Bank-Notes.

The issuing of bank notes to circulate as money has usually been regarded as a natural function belonging to commercial banks. Prior to the organization of the National banking system in 1863, commercial banking was done by State banks, organized under the authority of the various States. Most of these banks issued circulating notes which passed as money, but these notes were merely the promises to pay, on demand, of the bank issuing them, without any specific security.

If the issuing bank was honestly and well managed the notes would be good; but if not, there was risk of losing a part or the whole of the amount represented by the note. In the State of New York the law at one time provided for the creation of what was known as a "Safety Fund," under which each bank had to pay to the State an annual tax on its circulating notes, to provide a fund for the payment, or "redemption," of the notes of any bank which might fail and be unable to pay any part of its notes.

During the Civil War the United States Government was compelled to borrow large amounts to pay the costs of the war, and also needed large amounts of money or currency to pay current expenses.

The Government issued over $400,000,000 of its own Treasury notes, called "greenbacks," and as far as its cred-

itors would take them for debt, or the public would buy them for investment, issued its bonds, bearing interest, and payable at the end of a term of years. As the war progressed, however, the necessity for borrowing became so great that inducements for lending their funds had to be offered to the public, and in 1863 a law was passed authorizing the organization of National banks. This law, in addition to allowing the banks to do a commercial banking business, required them to buy and deposit United States bonds with the Government, which then furnished each bank with circulating notes equal in amount to 90 per cent. of the par value of the bonds deposited. The bank had to pay a tax of 1 per cent. a year on the notes it issued, but it received interest on its bonds, which the Government held as security for the payment of the notes in case the bank failed. This arrangement yielded a profit to the banks, and so accomplished the double purpose of selling the bonds to the banks and of increasing the volume of money in circulation, both of which ends the Government wished to accomplish.

About the time National banks were permitted to issue circulating notes, a United States law was passed, imposing a tax of ten (10) per cent. a year on such notes issued by any other bank, corporation or person. This law did not forbid the issue of notes, but the tax was so heavy as to destroy all possibility of profit, and in this way was prohibitory.

One theory as to issuing bank-notes is that by doing this a bank could increase its ability to lend money to its customers to the extent to which it could pay these notes out. Instead

of gold, silver, or other kinds of money, it could use such money for making loans. In effect, the bank issuing such notes borrows the funds they represent from the holders of the notes until the banks pays or redeems them. In this way it temporarily increases its capital, or at any rate its banking power. In the case of National banks, as already pointed out, it does not have this effect, because the banks are compelled to invest a larger amount of their funds in the bonds they must deposit to secure the circulation than the amount of circulation they receive and issue.

In this connection reference may be made to what is contained in the first chapter.

Another theory of note-issuing is that where an additional supply can be had quickly it can be used by a bank to pay its depositors in case of any sudden withdrawal of deposits, or what is called "a run on the bank," and so tide over an emergency until the bank can either collect its loans or sell its securities held for investment to an extent necessary to replenish its stock of cash or reserve sufficiently to redeem the notes issued in the emergency.

Although the issuing of National bank currency does not increase banking power, still it increases the volume of money in circulation, and without doubt this currency is as good as any other money issued by the Government.

With the constant addition of gold nowadays, through coinage, to the aggregate stock of currency in circulation, and the increasing use of checks and drafts, which do a large share of work done by currency, it is questionable if there is any wholesome demand for a greater increase in the volume

of bank-notes. If there is, most thoughtful bankers appear to agree that it would be met by some plan based on the "Safety Fund" principle once tried by the State of New York.

This is, in effect, the application of the insurance principle to the risk of loss on bank-notes, so successfully applied by companies insuring against the risks of loss by death, fire, water, accident, and other casualties in human affairs.

The "Safety Fund" plan contemplates that all National banks, now issuing circulating notes secured by United State bonds, should issue notes without depositing any security, but that each bank in the system shall pay an annual percentage, or tax, on the amount of its notes, to create a "Safety Fund," to be held by the United States Treasury to redeem or pay the notes of any National bank which fails and whose assets do not realize enough to pay its creditors in full. As part of such a plan, it has been proposed to make the circulating notes of a bank a prior lien or preferred claim on the assets of any insolvent bank, over and above the claims of depositors and other creditors, for the holder of a bank-note is a creditor of the bank issuing it. But to make these notes a preferred claim would work injustice to the depositors and other creditors. At the same time, as it is the proper function of the United States to coin and issue money, the Government should provide that all kinds of money in circulation, including bank-notes, should be good in the hands of the public, whether the bank issuing them fails or not, and to insure this goodness it should provide such measures as would make sure the redemption or payment in full of all

bank-notes issued under its authority. The National bank system has now been in operation 37 years, a period covering times of great business loss and depression as well as great prosperity experienced by a large number of banks located in every part of a great and diversified country. The statistics showing the losses sustained by the National banks from the beginning should furnish a most reliable basis for estimating what annual percentage or tax on the circulation of the banks would provide a fund great enough to redeem the notes of all banks that fail. There is no doubt that an annual tax of one-tenth of one per cent. would be sufficient to do this, provided that the amount of circulation to be issued by each bank were limited and controlled by the Government. The issue of this kind of currency would be much more profitable than the present bond-secured currency, and it would provide for the supply of any temporary need for additional money in circulation, if any such need really exists. But, as already stated, it is a question whether the increasing use of checks, drafts and other "instruments of credit," added to the constant coinage of gold and silver coins, will not supply all needful and wholesome demand for a circulating medium.

CHAPTER VII.

Borrowing Money.

Among the functions usually authorized by law to commercial banks and loan and trust companies is the power to borrow money. The theory of this is that there are seasons of the year when the resources of banks in certain localities are taxed to provide funds temporarily to get crops to market, such as cotton, wheat, corn and the like. This power is also granted to enable a bank to save its life, so to say, in case of an extraordinary demand on it for funds from its depositors. By its contract or agreement with depositors, a savings bank may claim a postponement of 30 or 60 days for payment of deposits, but a bank holding deposits payable on demand must either pay on demand or admit failure and stop business. In borrowing money a bank usually gives its promissory note, signed by one or more officers of the bank authorized to sign for the bank. Notes issued in this way are called "bills payable." Another way is to take certain of the notes or drafts upon which the bank has loaned money to its customers, known as its "loans and discounts," endorse them with the name of the bank by one of the officers authorized to do this, and borrow the money on these. Notes and drafts so used for borrowing are called "notes and bills rediscounted." A bank may borrow from any source it wishes, but usually these accommodations are procured from some other bank with which it is accustomed to do business. Whenever a bank lends money to another bank it should be careful to procure evidence of authority from the board of

directors of the borrowing bank to the officers of said bank, and this is usually shown by an authentic copy of the resolution passed by the board authorizing the officers to borrow a stated amount. This precaution to procure evidence of the directors' authority to borrow should be taken, because in cases where a dishonest officer has borrowed money, ostensibly for the benefit of his bank, without this authority, and used the money borrowed for his own benefit and not for the benefit of his bank, the lender has not been able to recover the amount loaned.

In some cases banks borrow money on "certificates of deposit," but these should not be issued except for deposits voluntarily offered to a bank. The best obligations to give for funds which a bank seeks to borrow are either its "bills payable," with or without the collateral security of some of its loans and discounts, bonds, or other securities it might own, or its "bills rediscounted," as already described.

In conclusion on this subject, the prudent banker will not ordinarily use this power to borrow money as a means for procuring temporary additional capital to extend his business, but will reserve it for use in times of emergency, like crop-moving seasons, or in case of a run on his bank.

Such a banker will find it much less difficult to procure temporary help in time of need and difficulty than one who habitually uses this resource in seasons of prosperity.

Sometimes a bank will have to pay as high a rate of interest for the money it borrows as it receives from its customers for what it lends, but usually a bank in good credit can borrow at a lower rate of interest than it lends at, and so makes a small margin of profit on the money it borrows.

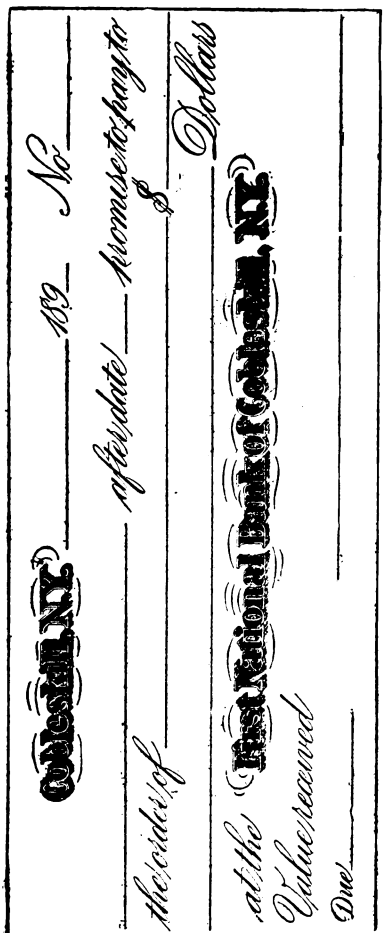
CHAPTER VIII.

Loans and Discounts.

The profits of banking are derived chiefly from lending out the money, funds or credits represented by capital stock and also by deposits made with the bank, or, in other words, by making "loans and discounts."

The distinction between these two terms is that a loan represents money loaned directly to any party giving his written obligation to repay same, while a "discount" is money loaned to a party who holds the written obligation of some second party given to the first party for valuable consideration.

The obligation upon which both "loans and discounts" are usually made is the "promissory note," which may be either written or printed, and executed in the following form:


Cortland, N.Y.
189_ No.
after date I promise to pay to
the order of
Dollars
at the First National Bank of Cortland, N.Y.
Value received
Due

This is a specimen of a note signed by one party, who is called the "maker," and payable to the order of another party, called the "endorser," because he completes the obligation and makes himself responsible with the maker for its payment by writing his name across the back of the note.

The form of promissory note just given is what is known as a "negotiable" note, for when properly endorsed by the party named in the note, to whose order it is payable, the title or ownership of same may legally be transferred to a new owner for the proper value or consideration given for the note.

The essentials of a note are that it should be properly signed and dated, and the amount in dollars and cents clearly stated in the body of the note. The bank or place of business at which it is payable should also be stated in the note, and if drawn with interest the rate should be named. If no rate of interest is named, then the legal rate of the State in which it is made is understood.

A negotiable note in the United States should be made payable in dollars and cents simply without any other qualification, such as "in current funds," or "in exchange," or the like, which might render it non-negotiable. The safe rule is to follow closely the form already given, and so avoid any question as to the negotiability of the note which might be raised.

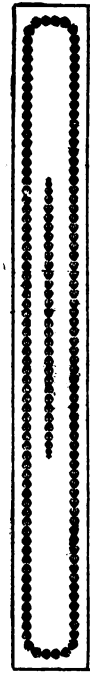
Where a note is given for money "loaned" direct to the maker it is called "accommodation paper," and represents "liabilities for money borrowed" by the maker, according to the term used in section 5200 of the National Bank Act.

Where a note is signed on the face or "made" by a single person, firm, company or corporation, and is not signed or endorsed by any other person, firm, company or corporation, it is called "single-name paper."

If made by two different parties, or made by one party and endorsed by another, it is called "two-name paper."

Where a note by its terms is payable upon the demand or "call" of the holder or owner, it is termed "demand paper," and where it is payable at the end of any fixed period of time after the date of its execution it is called "time paper."

When a promissory note contains a clause setting forth the fact that certain "personal property" (such as certificates of stocks, or bonds, or other promissory notes, or a mortgage of goods, chattels or other personal property) is pledged to make the loan safer to the lender, it is said to be "secured by collateral" and is termed "demand collateral paper," or "time collateral paper," according to the terms of its payment.



$ _____ New York, _____ 19____

_____ after date _____ promise to pay to

THE NATIONAL BANK of the City of New York, or order, at said Bank,

_____ Dollars,

in funds current at the New York Clearing House, for Value received, with interest, at _____

per cent. per annum, having deposited or pledged with said Bank, as collateral security for the

payment of this note or any other liability or liabilities of _____ to said National Bank,

due or to become due, or that may be hereafter contracted, the following property, viz

_____

_____

_____

with such additional collaterals as may, from time to time, be required by its President or Cashier, and which additional collaterals _____ hereby promise to give at any time, on demand If these additional collaterals be not so given when demanded, then this note to be due, and rebate of interest taken shall be allowed on payment prior to maturity And _____ hereby give to said Bank, its President or Cashier, full power and authority to sell and assign and deliver the whole or any part of said collaterals, or any substitutes therefor or any additions thereto, at any Brokers' Board, or at the New York Produce Exchange or elsewhere, at public or private sale, at the option of said Bank, or its President or Cashier, or either of them, on the non-performance of the above promises, or any of them, or at any time thereafter, and without advertising or giving to _____ any notice or making any demand of payment, and to purchase the said collateral, or any part thereof, at any such public or private sale or sales, freed and discharged of any and all equity of redemption whatsoever

_____

Where a loan is made upon the security of land or of "real estate," the usual custom is that the borrower and owner of the real estate gives his promissory note, which states that the note is secured by a mortgage of the real estate, or a deed of trust on same, or some other form of written instrument by which the borrower empowers the lender to sell the real estate and repay himself from the proceeds of sale in case of his inability to repay the money named in the note when it becomes due and payable by its terms.

Before money is loaned upon the security of real estate, proper care should be taken by the lender to see that the title or claim to the property is good and valid, and that it has not been already pledged or mortgaged as security for any other loan or loans. To ascertain this it is necessary to employ the services of a competent lawyer or of a "real estate title company," whose business it is to examine titles to real estate for parties purchasing or lending money on same, and to guarantee the purchaser or lender against any loss arising from any defect in the title which may be found after it has been reported as good and valid.

Any mortgage or other lien on real estate taken as security for a loan should be promptly recorded by the lender with the proper official, as required and provided by law, to secure proper protection afforded by such security and guard against the risk of the same property being dishonestly pledged to some other lender.

The usual principle of law in real estate transactions is that the recording of a deed, conveying the right and title outright or conditionally to some other party, gives formal

notice of the transaction, these records being always open to inspection by the public.

The profit which a bank makes upon the lending of money is called "interest" or "discount," the rate of which is based upon a certain annual percentage, usually fixed within certain limits by the law of the State or Territory in which the loan is made.

Sometimes the rate of interest is stated in the note, and sometimes not. Where a note contains the words "with interest," without stating the percentage or "rate," it is understood that the rate fixed by law is to be paid, unless there is a special rate agreed upon by the borrower and the lender before the money is loaned.

Where a note is drawn "with interest," this is always computed from the date upon which the note is executed (unless some other date is specially named therein) to the date marking the last day of the period of time for which the loan is made, upon which date the note is said to "mature," called the "date of maturity." An old custom still gives the maker of a promissory note three days beyond the last day of the period of time named in the note, and these are called "days of grace," and in such cases the last "day of grace" is the date upon which the note is legally due and payable. In many States "days of grace" are no longer legal, and in such States the note becomes due on the last day of the period named in it. Where a time note is drawn with the words "without grace," the three days are not allowed.

Time notes are usually made payable upon a fixed date named, or so many "days after date," or so many "months"

or "years" after date. Where drawn for so many days after date, the date of maturity is found by adding the stated number of days to the date of execution, and adding also three days of grace where custom or law allows this. Where a note is drawn payable a stated number of "months after date," as, for instance, three months after January 15, it would mature on April 15 if "without grace," or April 18 if grace is allowed.

When a note is dated the last day of February, the 28th or 29th, as it may be, payable "two months after date," it would be payable on the last day of April, or three days after that if grace is allowed. If such a note, however, is dated February 27th, when February ends on the 28th, or dated the 28th when February ends on the 29th, it would be payable on April 27th or 28th, respectively, if without grace, or three days beyond that if grace is allowed.

Again, when the date of maturity falls on a Sunday or some other legal holiday, it will be payable either on the last business day before such Sunday or holiday, or the first business day thereafter, as the law of the State or Territory within which it is payable may determine.

Interest on loans is computed in different ways. If a note is drawn for a stated amount, with interest at a stated rate or the legal rate, at end of a stated number of days, all the maker can legally be compelled to pay will be the amount named in the note, plus interest on same for the number of days; for instance, to a note for $100, payable 30 days after date, with 6 per cent. interest, 30 days' interest on $100 at 6 per cent. must be added if without grace, or 33 days' interest if with grace.

But in some localities, where law and custom admit, a person borrowing money on such a note would not receive $100 as the "proceeds" of the note, but the interest would be added to the $100 and interest at the rate of 30 or 33 days on $100 plus such interest would be deducted, which would cause him to receive something less than $100 as the proceeds, and in this case he would pay what is called "bank discount," which amounts to interest on interest for the time the note runs.

The same rule applies where a note is drawn without interest, for if interest on the sum named in the note, called its "face value," is deducted, then "bank discount" is charged, but if he receives such a sum which, with interest for the period named added, will produce $100, then he pays "true discount" or interest.

Business or Commercial Paper.

When a promissory note is given by one party to another for some valuable consideration, as money loaned, goods sold, or services rendered, such note, in the hands of the party to whom it is given by the maker, is called "business" or "commercial" or "trade" paper, for the reason that it represents a bona fide business or commercial transaction between two parties. In this respect it differs essentially in character from a promissory note given to a bank for a loan of money received directly from it.

When a bank loans money on such paper to the party who has received it for value and makes himself responsible for its payment by endorsing same, it is called "discounting"

business or commercial paper, and while a National bank is prohibited from making direct accommodation loans to any one party beyond the limit of one-tenth of its capital stock, no restriction is placed upon the amount of business or commercial paper it may discount for any party actually owning and negotiating same.

The reason, presumably, is that there is less risk of loss upon paper which is based upon a bona fide exchange of commodities between two parties, both of whom are responsible for its payment, than upon paper which represents simply a direct loan of money, even though the note upon which the direct loan is made is secured by collateral.

For in the case of the business paper, if the maker is unable to pay at maturity, the endorser will exert himself to repay the bank to protect his credit, while if the maker of a collateral note finds it inconvenient to pay at maturity, he is apt to make less exertion to this end, because he considers the bank secured for the debt by the collateral pledged, which, however, the bank may not be able to turn into money —at least without cost of more or less time and trouble.

As a rule, therefore, it may be laid down that the best and safest paper a bank can hold in times of prosperity or of financial disaster is that upon which two different parties in good standing are responsible, or, in other words, good two-name paper.

Drafts or Bills of Exchange.

Besides promissory notes, another form of obligation given for money loaned is the "draft," or "bill of exchange," like the following specimen:

$ _____

NEW YORK, _____ 189__

_____

PAY TO THE ORDER OF _____

_____ DOLLARS

VALUE RECEIVED AND CHARGE THE SAME TO ACCOUNT OF

TO _____

_____

A bill of exchange may properly be defined as a draft drawn by a party doing business at one place upon a different party residing in some other place at a greater or less distance, for a sum of money representing a bona fide business transaction between the "drawer," who signs the "bill" or "draft," and the "acceptor," who agrees to become responsible for its payment by writing his name across the face of the draft.

For instance, where a party in New Orleans sells a lot of cotton to a party in Liverpool, he draws a "bill of exchange" for the value of the cotton, attaches to it the "bill of lading," or receipt given by the railroad or steamship transporting the cotton to its destination, and a certificate of an insurance company, undertaking the risk against loss by water and fire, and taking it to the bank where he deals, he will be in a position to receive immediately the cost of the cotton from the bank, which, when it lets him have the money, is said to buy or discount the "bill of exchange."

For the money advanced the bank is protected from loss by the bill of lading and the insurance certificate until it receives repayment from the party upon whom the draft is drawn. For the use of the money so loaned or advanced the bank receives what is called "exchange," which is a certain percentage, based not only upon the rate of interest for the use of its money, but also something besides to compensate it for the cost of bringing money to New Orleans with which to buy or discount the draft.

During the movement of the cotton crop, requiring large amounts of currency for a few months, it is necessary for

the banks at the South to bring the currency from points more or less distant by express, and the discount or exchange deducted must also cover this expense.

When a bank buys bills of exchange it will get back as much of its money as it can by selling its drafts or bills of exchange to parties who wish to remit money in payment of goods bought or other debts contracted at a distance, and the extent to which it does this determines the rate of exchange. For instance, a bank in New Orleans, after exhausting its funds on hand in buying cotton bills of exchange, will forward these bills to a bank in New York City, requesting it either to buy them in turn or lend money on them. The bank in New York will credit the New Orleans bank with the proceeds of the bills and will, as requested, ship the same in currency by express to the New Orleans bank or ship a portion of same and use a portion to pay bills drawn by the New Orleans bank and sold to parties owing money at the North or elsewhere, and remitting payment for same in drafts on New York.

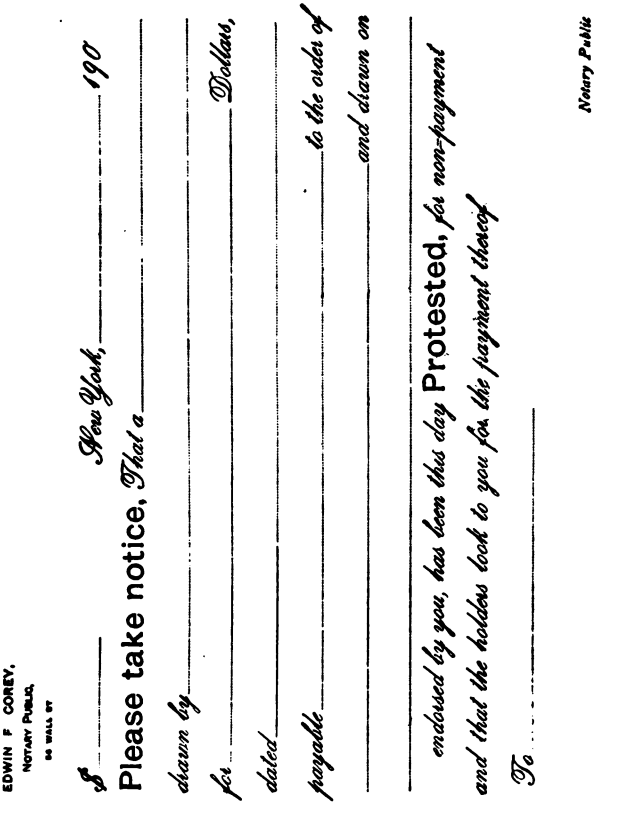
If the amount of bills bought greatly exceeds the amount of those sold, exchange is said to be at a rate "below par," which means that a discount is deducted from the amount named in the face of the draft to cover the cost and expense of bringing currency by express. If the bills bought equal the amount sold, the discount on the face value of those bought will be just sufficient to cover interest for the use of the money and risk, for no currency need be transported, while the bills sold will be at their face value, or "at par." Again, when the amount of bills sold exceeds the amount

bought, then the rate will be "above par," or at a premium, for the bank will then be at the expense of shipping currency to New York from New Orleans, with which to meet payment of the bills it has sold.

These factors will determine the rate of exchange in the same way between New York and London, or any two other points, the principles being the same in all cases.

PROTEST.

When a promissory note made by one party and endorsed by another matures or becomes due, the rule is to look to the maker for payment. In case he fails to pay at the proper time, then the bank must promptly give notice to the endorser or endorsers of the maker's failure to pay, for if this is not done the rule of law is that the endorser cannot be held responsible. This rule of law is based on the principle that unless the endorser is promptly notified of the non-payment by the maker he naturally presumes that the note has been paid, but when he is notified he then is able to take prompt measures to protect himself for his liability by procuring security from the maker, or in some other way. This notification is called "protesting" the note for non-payment, and is usually given by a notary public or other officer qualified to administer an oath, after he has presented the note at the bank or other place where it is made payable by its terms, in the following form:



Any party who gives a promissory note should be careful to state plainly in the note where he desires to pay it, and also to make a memorandum of the date of maturity, as well

as of the amount, for while it is the custom of some banks to send to the maker a notice showing when and where it is due and payable, the failure to receive this, through miscarriage in the mails or from some other cause, will not relieve the maker of any responsibility arising from his failure to pay the note at the place and time agreed.

If the note, by its terms, is made payable at a certain bank, then, before being protested, it should be formally presented for payment at such bank to the "teller," or other proper officer, at the close of business on the day of maturity, the payer having the right to pay it any time before the close of business on said day. If it is made payable "at any bank," then presentation at any bank in the place named in note will constitute a proper presentation before protesting. If, however, no place of payment is named, then the note should be presented at the place of business of the maker, or if he has no place of business, then at his residence, and if this cannot be found after a reasonably diligent search by the officer charged with the presentation and protest, then the protest may be made without the actual presentation.

Where notes or other obligations requiring protest if not paid are sent by one bank or person to another bank or person for collection at maturity, the bank or person receiving same should require the sender to give specific instructions with regard to protest, and in cases where such instructions are not given, then the safe rule is to protest any such paper appearing to require this.

CHAPTER IX.

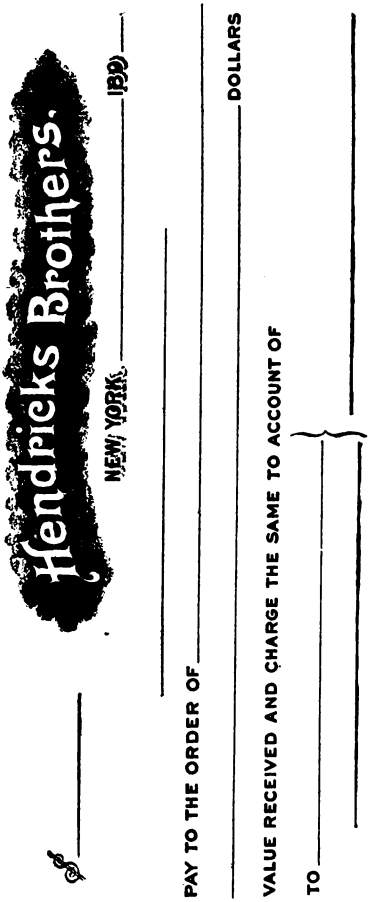
EXCHANGES; COLLECTIONS; LETTERS OF CREDIT.

IN THE chapter on "Loans and Discounts" and that on "Deposits," something has been said about "bills of exchange," "collections," "drafts" and "checks," all of which are related to the business of buying and selling "exchange," and this, being one of the most valuable services rendered by the present system of commercial banking, deserves a special chapter on the subject.

The word "exchange" is very aptly used to express the process constantly going on between banks all over the world, of "exchanging" checks, drafts, and other instruments calling for the payment of money between each other. Nowadays a bank in any part of the United States is apt to have offered to it for sale or for deposit a check, or draft, drawn on a bank or banker located either in some other part of this country or in some foreign country. The owner of the check will wish either to deposit it with the bank or to sell it. It may be the check of some party on a bank in some other place, or the check of one bank on another bank located elsewhere, like the following form:

Boylston National Bank
No.
Boston, 190
Pay to the order of
DOLLARS
To the Cashier of
Central National Bank
New York
Cash'r

Or it might be the "draft" of one party on another in some other place, in the following form:



If the owner of the check or draft is a regular customer of the bank, it will take it on deposit for him, after he has endorsed it, crediting him with the "proceeds." This means such a sum as is left after the sum of "exchange," or discount, is deducted from the face of the check or draft. For checks drawn on banks in the United States this rate of exchange will vary according to the distance of the point where they are payable, from 1-20th of 1 per cent. to 1-4th of 1 per cent., or from 50 cents on each $1,000 to $2.50 on each $1,000. When the proceeds of the check are placed to the credit of the depositor, he is at liberty to draw against the amount, just as against any other deposit he may make. This deduction or discount is made to compensate the bank for the loss of interest to the bank until the amount advanced on the check is repaid to it, and for any expense it is at in collecting it. For instance, if a bank in New York takes from a customer a check on a bank in Cincinnati, it will deduct 1-10th of 1 per cent. for exchange or collection charges. Out of this it will probably pay a bank in Cincinnati, to which it sends it, 1-20th of 1 per cent. for collecting it, besides the cost of postage, stationery, and clerical service involved in the transaction. If the owner of the check is not a regular customer of the bank or not in good credit, the bank will not pay him the money for it or credit his account, but will take it "for collection," which means it will forward it for collection, and when it receives pay for it, will pay over the proceeds to the owner, or credit his account, after deducting collection charges. Where a bank buys such a check or takes it on deposit, if the check is returned unpaid the owner or endorser

is bound to refund the amount to the bank. At the close of business each day every bank separates the checks it has received on deposit or bought during the day into two classes: (1) those on banks located in the same city or place, which it exchanges the next morning with such banks, through the local "clearing house," as explained in the chapter on "deposits"; and (2) those drawn on banks or parties located in other cities or places, which it sends by mail that afternoon to banks called its "correspondents." These are banks located at central points all over the country, which agree to collect the checks on certain nearby points sent them at a certain charge, to be remitted for the day they are received or twice a week, or once a week, as may be agreed between the banks concerned.

As a rule, it is good business policy to send a collection item to a bank located at the place at which the item is payable, or if no bank is located there, then to one nearest to such a point. As a rule, also, a collection item should not be sent to the bank on which it is drawn, but to some other good bank located at the same place.

These principles, which apply to collection items between points in the United States known as "domestic exchange," are equally applicable to checks, drafts, etc., executed in this country, but drawn on banks or parties in foreign countries, known as "foreign exchange." Such items on Great Britain are usually expressed in pounds, shillings and pence; those on France in francs; those on Germany in marks, and so on. In these cases the foreign money must first be calculated in dollars and cents in United States money, after which the

proper deduction for exchange must be made, depending, as in the case of domestic exchange, upon the time the money will be invested and the cost of reimbursement to the bank buying the exchange, as well as the risk of loss involved in the transaction should the party on whom the item is drawn fail to pay on presentation or maturity.

Letters of Credit.

Banks which deal in "foreign" exchange usually furnish what are known as "letters of credit" to travellers and others needing funds in countries outside of the United States. For instance, a person in Chicago proposing to visit places in Europe, Asia and Africa needs $2,000 to pay his travelling expenses during the trip. It would be inconvenient and unsafe to take this amount in United States gold coin, which in every country he visited would have to be converted into a different kind of currency, as pounds, shillings and pence in Great Britain, francs in France, marks in Germany, roubles in Russia, rupees in India, and so on. The traveller therefore deposits $2,000 with a bank in Chicago dealing in foreign exchange, and receives from it a "letter of credit," which is a circular letter addressed to all of its "correspondents" abroad, or banks and bankers with which the Chicago bank does business, or keeps funds on deposit in the principal cities in the countries to be visited. This letter entitles the person named therein to receive the equivalent of $2,000 United States money either in one sum from any one bank

or banker to whom the letter is addressed, or in various sums, at various places, such sums not to exceed $2,000 in the aggregate. The names and locations of all the banks to which it is addressed are printed in a list in the "letter of credit." The traveller is able to "identify" himself whenever he presents the letter by his signature, which he is required to place on the letter when he receives it. For each sum received by him he signs a receipt in a printed list in the letter, showing the amount paid him by each banker, together with the date and place of payment. By adding up these sums each banker is enabled to know how much of the $2,000 is still unpaid. Sometimes in the place of a letter of credit a bank will furnish drafts or checks for stated small amounts like $50 each, made payable to the order of the traveller and bearing a specimen of his signature by which to identify him. Each draft, like the letter of credit, bears on the back a printed list of the banks or bankers in various places who will pay it on presentation. For the letter of credit or drafts for $2,000 the traveller must of course pay something over and above the $2,000 to cover the cost of "exchange," or of placing and keeping funds with foreign bankers out of which he can be paid at his convenience.

CHAPTER X.

Bonds, Mortgages and Stocks.

As BANKS lend money on the security of bonds, stocks, mortgages and similar instruments and hold them as investments, the following description of these is given:

A *bond* is an obligation, written or printed, given and signed by a corporation, company, firm or individual, by which it promises to pay a stated sum of money, at the end of a stated time, with interest at a certain rate, interest being usually payable at the end of each six months, or semi-annually. A bond is usually given when the borrower wants the use of the money for a term of years, like five, ten, twenty, thirty or more years, and is also usually secured by what is known as a mortgage on some kind of property. The effect of a mortgage is to give the holder of the bond a prior lien on property pledged as security or mortgaged, and the right to take it, or acquire ownership or title to it in case the money borrowed is not returned, or if the interest is not paid when due. Such a taking of the mortgaged property is called "foreclosing" the mortgage, usually provided for under the laws of the State in which the property is located. A mortgage may be given on real estate or land, where the owner of the land in the city wants to erect a building on it, or in the country, where a farmer may wish to put up buildings or buy animals or agricultural implements to carry on his business. Such a mortgage is called a "real estate" mort-

gage. A mortgage on land usually includes all buildings standing on same, whether mentioned in the mortgage or not.

In the case of a railroad company borrowing money on bonds, a mortgage is usually given on all land or real estate owned by it, including buildings thereon, and on its locomotives, cars, rails and all movable property besides.

Where a party borrows money on a stock of merchandise, animals, vehicles or any other movable or "personal property," and gives a mortgage to secure the debt, this is called a "chattel mortgage."

The law usually provides that when a mortgage of any kind is given it should be recorded at the court house or county seat nearest to the location of the property, as a notice to all parties that the property has been pledged as security for a loan, and this record should always be promptly made in the interest of the lender. Where he fails to record it promptly, a dishonest party may give another mortgage to someone else, which, if recorded first, would take legal precedence over the one previously given. Again, before one lends money on a mortgage of any kind of property, care should be taken to search the court, county, or other public legal records, to ascertain if any other mortgage has already been recorded, and this search can best be made by a reliable lawyer or a company or corporation whose business it is to examine the title to property.

A *first* mortgage, when properly recorded, gives a first or prior lien or claim on the property on which it is given. The next mortgage given, if any, is called the "second mortgage,"

and is entitled only to such share of value in the mortgaged property as may remain after the first has been paid or "satisfied." Such security as a second mortgage gives is called an "equity in the property."

The word *"stocks"* is usually applied to the printed instruments called "certificates of stock," issued by corporations to the "shareholders" or "stockholders" who contribute the "capital stock."

These usually certify that the party named therein is entitled to a stated number of shares in the company issuing the certificates. The "par value" of each share is usually stated in each certificate, and this par value may be for any amount from $1 up to $1,000, as the corporation may prefer to make it when organized.

A certificate of stock is the personal property of the party named therein, and so continues until he properly "assigns" it to some other party by signing his name, attested by signature of a witness, to the form for assignment usually printed on the back of the certificate. When a party sells or "transfers" his certificate to anyone else he should see that his certificate is cancelled by the corporation issuing the stock, and that a new one is issued in the name of the party to whom he has transferred it. This is important in the case of such stock as National bank stock, which makes the holder of the stock liable for an assessment to make good any losses sustained by the corporation issuing the stock.

Formerly a corporation issued only one kind of stock, called "common" stock, the holders of which participated without discrimination in any profits or losses the corpora-

tion might make. But the custom is growing, nowadays, for a corporation to issue another class of stock, known as "preferred" stock, in addition to the "common" stock. This "preferred" stock, as compared with the "common," conveys to the stockholder a preference or prior lien over holders of "common" stock on any profits the corporation may earn over current expenses, and makes the condition that the shareholder shall receive out of the first profits dividends at a certain stated percentage. Such dividends on preferred stock are sometimes made "cumulative," which means that if, through lack of earnings at any time, any dividend on the preferred stock is not paid, then such unpaid dividends shall accumulate and eventually be paid if the necessary amount is afterward earned. If the corporation earns more than enough to pay dividends on the preferred stock, then a part or the whole of the profits remaining may be paid in dividends on the common stock.

In addition to a preference over common stock as to dividends, "preferred" stock sometimes conveys a preference as to assets, in case the corporation fails or gives up business. This means that after the debts of the corporation are paid in full, an amount equal to the par value of the preferred stock and any dividends due thereon must be paid to the holders of such stock before anything is returned to the holders of common stock.

The theory of issuing preferred stock may be illustrated in this way. Some parties own or control an invention of value, protected by patents in the United States and other countries. They believe if they can manufacture articles

under the patents they can sell them at considerable profit over the cost of manufacture, but have not the necessary capital or funds to purchase land, erect a factory thereon, equip it with machinery, purchase the materials for manufacture into the finished product, and pay salaries, wages and other expenses. So they sell to parties willing to buy $100,000 of "preferred" stock at par, on which the corporation engages to pay dividends at the rate of 6 per cent. a year, payable half-yearly, and also to repay the amount invested in the stock, in case the corporation should fail or cease business, provided enough of the assets or resources remain after the debts of the corporation are first paid. At the same time the preferred stock is issued and sold, the organizers or "promoters" of the corporation issue $100,000 of "common" stock, a part or the whole of which they will retain for themselves, as a consideration for their ownership or interest in the patents, and the remainder, if any, will either be sold to the public for what it will bring, or given as a "bonus" or premium to those who buy the preferred stock. The corporation, when fully organized, will have $200,000 capital stock issued; $100,000 of preferred, represented by money actually paid in or by an equal amount of property bought with the money and by cash on hand; and $100,000 of common stock, representing at the outset the hope that the earning power of the business will be sufficient not only to pay the regular dividends on the preferred stock, but dividends also on the common stock. If, in course of time, there proves to be a good demand for the articles made under

the patents, that they can be sold at a good profit, and the management of the business is able and honest, the common stock may sometimes prove to be more valuable than the preferred stock, when this is limited to a certain rate of dividends and the profits of the business allow the payment of dividends at a higher rate on the common stock. While this illustration shows the case of a corporation organized to develop the earning power of patents covering an invention, the same principle may be applied to the greater development of the earning power of a business in any line, railroading, manufacturing, mining or any other, which in a smaller way has proved to be profitable, but which needs more capital to increase its earning power. In such organization or reorganization it is now pretty well understood by the investing public that when both preferred and common stock are issued, the preferred usually represents actual money or capital put into the business, while the common represents only the hope of earning power which may or may not be realized, depending largely upon the ability, judgment and integrity of the managers, essentially necessary to the success of business enterprises, whatever their nature.

CHAPTER XI.

Bank Reports—Examinations.

A matter of considerable interest to the shareholders of a bank, as well as to its depositors or other creditors, is its "condition," and so far as these interested parties and the general public are concerned, information as to this is to be obtained only through the "statements" or "reports of condition" which the law requires banking institutions to publish in the newspapers from time to time.

In the case of National banks, the law compels them to make not less than five reports of condition every year to the Comptroller of the Currency, at such dates as he may decide to call for them, which reports must also be published in a local newspaper. Not knowing when these reports will be required, the banks are not able to make special preparation for them, and thus they usually represent what may be called the "normal" condition of the bank's affairs. They must also be made up in such form as the Comptroller prescribes, no matter in what form the bank's accounts are kept, or its books, and finally, the correctness of the report must be verified under oath before a notary public by the cashier or president of the bank, and attested by the signatures of three of the directors.

To insure the correctness of these reports, the law prescribes a heavy penalty of imprisonment for not less than five years nor more than ten, on any officer swearing to a re-

port of condition which at the time he knew to be false in any statement. Notwithstanding this penalty, occasionally an officer swears to a false report, hoping thereby to conceal some act of theft or other dishonesty on his part.

Such dishonest reports, however, are rare and exceptional, and as a rule bank reports can be relied on as representing the condition of the bank as actually shown by its books. Again, while such a report shows the "book value" of a bank's resources or assets, this will not be the actual or market value in a case where losses have been sustained on its loans and discounts or other investments and have not yet been written or charged off the books.

The following is a specimen of the "report of condition" of a National bank, as it is published in the newspaper, at or near the place where the bank is located, viz.:

This information enables the Comptroller of the Currency to form an opinion as to the condition of the bank and the way in which its affairs are managed, and also, within certain limits, whether or not it is violating the law.

While National banks are required to make five reports of condition each year, and some States require the same number of reports from commercial banks under their authority, the number and form of reports required from such banks and from savings banks and from loan and trust companies vary according to the laws and regulations made by the various States.

Reports of earnings and dividends are also required semi-annually or oftener from National banks, made up in the following form, furnished by the Comptroller:

TREASURY DEPARTMENT,
COMPTROLLER OF THE CURRENCY.—Form 86.
Reports.

No. of Bank..... *CAPITAL STOCK AT CLOSE OF THIS EARNING PERIOD, $*..... *No. of Dividend*.....

REPORT OF EARNINGS AND DIVIDENDS OF

"The ....., *" located at* ....., *in the State of* .....

for the period of ..... *months ending* ....., *190* . *Declared* ....., *190* . *Payable* ....., *190*

FIRST SECTION.

3. Premiums on U. S. bonds charged off since last report		1. Gross earnings and profits made since last report	
4. Losses sustained through bad debts, decrease of values, etc., since last report		2. Losses recovered since last report (if any)	
5. Expenses and taxes paid since last report			
Total of items 3, 4, and 5			
*6. Net earnings and profits or loss of past six months carried down to second section			
TOTAL		TOTAL	

SECOND SECTION.

12. Carried to surplus fund (not less than one-tenth of item 6, unless surplus is already 20 per cent of capital)		*6. Net earnings and profits or loss of past six months brought down from first section	
13. Dividend of ..... per cent (on capital $ .....)		7. Undivided profits or loss brought forward from item 14 of last report	
14. Amount of net profits undivided or loss to be carried forward to item 7 of next report		8. Amount withdrawn from surplus since last report	
		†9. Authorized reduction of capital used to meet losses or passed to profit account since last report	
		10. Paid assessment on capital stock since last report	
		11. Subscribed and paid in by shareholders since last report as surplus or profits	
TOTAL		TOTAL	

THIRD SECTION.

18. Total surplus fund proper at date of this report		15. Total profits as National Bank since organization (less expenses, premiums, losses, etc.)	
19. Total dividends since organization as National Bank		16. Add profits and surplus of old organization at date of conversion to the national system	
20. Amount of net profits undivided or loss to be carried forward to item 7 of next report		†17. Total paid in by shareholders and reduction of capital used to meet losses and passed to profits	
TOTAL		TOTAL	

State of .....

County of .....

Sworn to and subscribed before me this ..... *day of* ..... *, 190* .

.....
Notary Public.

I, ..., *Cashier of the above-named bank, do solemnly swear that the above statement is true, to the best of my knowledge and belief.*

.....
Cashier.

* In case the loss exceeds the profits for the six months, the excess of loss over the profits should be entered in item 6 in red ink and deducted from total amount carried all (Items 3, 4, and 5.)

† Any reduction of capital other than that used to meet losses or passed to undivided profits is not to be entered on this report and can be omitted where previously included.

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In addition to the reports of condition and reports of earnings and dividends which are required by the proper authorities from banking institutions of all kinds, it is also the rule further to inquire into their actual condition by sending to the institution an officer, usually called an "examiner," to inspect it, audit its accounts, and make a thorough and searching examination of its loans, securities, money and valuables of any and all kinds.

In the case of National banks, each bank is visited in this way twice a year, or oftener if necessary. After the examiner has concluded his inspection, he makes a confidential report of its condition to the Comptroller on a blank furnished him for the purpose, and if the report shows any violations of law or any bad management, a letter is addressed to the bank, criticising these points, and calling for their correction.

CHAPTER XII.

DIRECTORS—EXECUTIVE OFFICERS—THEIR POWERS AND DUTIES.

THE legal management of commercial banks and loan and trust companies is vested in officers called directors, elected by the shareholders, and of savings banks in trustees, in the case of stock savings banks elected by the shareholders, and in that of mutual savings banks chosen from the incorporators.

The usual qualifications of a director are that he shall be a citizen of the United States and the owner of ten shares of the stock of the bank or trust company, which stock shall be owned by the director in his own right and not pledged or in any way hypothecated as security for a loan.

In the case of National banks, at least three-fourths of the whole number of directors must have resided in the State, Territory or District where the bank is located for at least one year preceding their election, and must reside therein during their continuance in office. Any change in any one of these qualifications disqualifies a director and operates to make his position vacant. As a rule, directors are elected by the shareholders when a bank is organized, and after that at elections held annually. A director elected at such annual election holds the position until the next election is held, and cannot be displaced unless he voluntarily resigns or does something which will disqualify him.

Whenever a vacancy occurs in a board of directors, by resignation or otherwise, between elections, it can usually be filled by someone elected by the remaining directors.

The board of directors should meet frequently to supervise the affairs of the bank, hear reports of its business from its executive officers, and direct how this business should be conducted. Usually no business can legally be transacted at any directors' meeting unless a "quorum" is present—that is, a majority of the whole number of directors.

While the directors, as a body, are expected to supervise the business and direct same, still the details of the business must necessarily be carried out by the officers and employes appointed or elected by the board. The chief executive officers of a commercial bank of any size are the president, the vice-president, the cashier and the assistant cashier.

In large banks there may be more than one vice-president and more than one assistant cashier if the business requires this.

In savings banks and loan and trust companies the title of the officer whose duties correspond to those of cashier in a commercial bank is "secretary" or "treasurer." The duties of the various officers named are approximately as follows:

The *President* always presides at any meeting of the board of directors or trustees, or acts as chairman. In his absence the vice-president acts in this capacity.

His chief function is to give general supervision to the business of the bank in its various departments; to exercise his judgment in the making of loans and other investments of the bank's funds, either alone or in consultation with

other officers of the bank, or with a discount or finance committee, appointed by the board to act with him in such matters.

He is made responsible for all sums of money or property of any kind entrusted to his care by the board of directors or the cashier, or otherwise coming into his hands as president. Either he or the cashier is authorized to sign all contracts, checks, drafts, etc., on behalf of the bank, and also transfers and conveyances of real estate owned by the bank, when authorized by the board of directors to do this.

The president usually joins the cashier in signing the minutes of directors' meetings, certificates of stock when issued, and, in the case of National banks, signs reports of condition or reports of earnings and dividends in the place of the cashier, and signs circulating notes with the cashier.

While these are the usual duties of the president, they may be modified by the board of directors as circumstances may make desirable or requisite.

The *Vice-president* presides at directors' meetings in the absence of the president, and is usually authorized, in the absence or inability of the president from any cause, to perform all acts and duties pertaining to the office of president, except such as the president only is authorized by law to perform.

When the president is present for duty, the vice-president usually performs such duties as are assigned to him by the directors.

The *Cashier* is usually the chief executive officer of a bank so far as its routine management is concerned. He is usually

made responsible for, and has control of, all the moneys, funds and valuables of the bank. He is authorized to sign all contracts, checks, drafts, etc., on behalf of the bank, such as certificates of deposit, cashier's checks or other vouchers for money or valuables entrusted to the bank for safe-keeping, and to sign checks or drafts for the purpose of transferring the funds of the bank from one place to another, or for paying its current expenses or other obligations. He is also authorized to certify checks drawn on the bank, and may delegate this power to the paying teller or some other officer. He can buy and sell exchange, coin and bullion where this is part of a bank's business; has the power to endorse paper entrusted to the bank for collection, and upon receipt of money in payment of contracts to endorse and deliver notes or drafts and collateral security representing same. But he has no right to endorse non-negotiable paper, or to compromise a debt to the bank, or change the terms of an original contract without express authority from the board of directors. Of course, he has no authority or right in his official capacity to endorse his own individual notes.

In cases of emergency he may, for the purpose of meeting the obligations of the bank, rediscount its negotiable paper or pledge its negotiable securities, in order to borrow money, and even to execute a promissory note on behalf of the bank for this purpose. But, except in case of an emergency, and as a safe rule, all borrowings by the bank and for its benefit should be made with the knowledge of and by the express authority of the board of directors.

These powers and duties of the cashier of a commercial

bank are similar to those exercised by the secretary or treasurer of a savings bank or a loan and trust company, within such limitations, in special cases, as may be imposed by the directors or trustees.

The *Assistant Cashier* usually performs such duties as may be specially assigned to him by the directors, these usually being in the way of relieving the cashier of duties ordinarily devolving on him.

CHAPTER XIII.

Internal Administration and Bookkeeping.

In every line of business good administration and bookkeeping is of the utmost importance, and in the banking business it is especially necessary not only that all transactions should be recorded in a clear, simple and systematic manner, but also that every precaution be taken to guard against the possibility of fraud or dishonesty on the part of any officer or employe who has anything to do with the bookkeeping of the bank or any department of its business.

Again, as competition in the banking business compels a bank to do a great many things for its customers involving clerical labor and expense for which it receives no direct profit, it is absolutely necessary that the very best and simplest devices be used to minimize such labor and expense to the greatest degree.

The outline of a system of bank administration and bookkeeping, including some of the best printed forms and devices, is embraced in the following suggestions:

Receiving Teller's Work.

When a deposit is made by a customer, the teller receiving it should see that the deposit slip clearly shows the amount deposited and the details of coin, notes, checks, etc., com-

posing same; and after satisfying himself as to the correctness of this, and the genuineness of the money and checks, he should enter the amount deposited in the pass-book which the depositor should have with him. He should then, or as soon as possible, enter the name of the depositor and amount in a blank book suited to the purpose, placing the deposit ticket on file for further use by the individual ledger bookkeeper, who should enter the amount of the deposit to the credit of the depositor on his ledger from this deposit ticket. During the day, as he has leisure, or with assistance, the teller should assort the deposits received, doing up the paper currency in packages—fifty notes in each is most convenient—assorting the various kinds in different packages. Around each package should be placed a paper strap, ready gummed, and having the proper amounts, $50, $100, $250, $500, $1,000, etc., printed on them. Money put up in gummed paper straps, which may be moved without unpinning, is easier to count, and, besides, the use of pins injures the notes to some extent. Checks on various banks should also be assorted and listed, each bank to itself, ready for exchange through the clearing house, or by messenger or mail where they are on outside banks. The gold, silver and minor coins should also be properly assorted and done up into bags or paper packages, ready for convenient counting. At the close of business the figures showing the deposits in the blank book referred to should be added up and a count of the cash actually on hand made, and the total of each should of course agree after proper deductions are made. The total of entries on the book should also agree with the total of the deposit

tickets, which should be summed up by the individual bookkeeper or bookkeepers. Where there are two individual ledgers the accounts in each are usually divided alphabetically, those in one being comprised between the letter A to K, and in the other between L to Z, and further subdivided if more than two ledgers are necessary. When, therefore, there are more than two ledgers, the tickets and entries on the teller's memorandum book should be divided alphabetically, so that the tickets may be passed on to the respective bookkeepers for entry on the ledgers, and the total entries in each ledger compared with the total of deposits shown by the teller's book. One advantage of such a book kept by the teller is that it is a check upon the bookkeeper's work.

Upon each check received by the receiving teller he should stamp the letters R. T. with a rubber stamp, bearing the proper date also, to indicate how and when it came into possession of the bank, and to prevent improper use. In addition to this, checks on the bank itself deposited should be properly cancelled by a punching or perforating machine.

All checks on banks outside of the place where the receiving bank is located, called "foreign" checks, should be turned over by the receiving teller to the correspondence or mail clerk, to be forwarded by mail to other banks for payment or collection. Of these "foreign" checks the teller should keep a separate list in a memorandum book. The same course should be pursued by the "paying" teller with regard to any foreign checks coming into his possession.

When the receiving teller's cash is made up at the close of the day, the result of his day's work should be summar-

ized, and the amount of money, checks and other items remaining on hand entered in ink on a book, in printed form something like this:

RECEIVING TELLER'S BALANCE BOOK.

Monday, March 30, 1896.

Receipts:						
Deposits, ledger A to K				$23	215	62
Deposits, ledger L to Z				30	642	81
Amount from note clerk				5	063	92
Amount from mail clerk				4	091	73
Amount from exchange clerk				10	041	63
Total receipts				73	345	71
Less:						
Checks on bank, charged up	$41	263	52			
Foreign checks mailed for collection	6	082	25	47	345	77
Cash turned over to paying teller, as follows				$25	709	94
Exchanges for clearing house	$15	062	75			
Checks and cash items	3	041	96			
Nickels and cents		25	73			
National bank notes		250	00			
Silver—dollars, $30; fractional, $40.50		70	50			
Silver certificates	4	299	00			
Gold—coin, $560; certificates, $500	1	060	00			
Gold—clearing house certificates						
Legal tender notes	1	900	00			
U. S. certificates for legal tender notes						
Total	$25	709	94			

After proving and balancing his cash, the receiving teller should turn over the amount he has on hand to the paying teller, who should carefully verify or count the amount received by him.

Paying Teller's Work.

While the receiving teller commences the day without any money on hand, the paying teller must be provided with a

sufficient amount to meet the ordinary demands of the day at least, and should see before the opening for business that his cash is properly and conveniently done up in packages or arranged loose so that it may be readily paid out to customers. As a rule, a bank pays at its counter only checks drawn upon itself, although sometimes, as an accommodation to good customers, it "cashes" checks on other banks.

When a check drawn on the bank is presented for payment, the teller should carefully examine it to assure himself of the genuineness of the signature and as to the amount called for. If the amount written in the body of the check does not agree with the amount shown in figures, then the written amount should determine the amount to be paid. If the teller has any doubt whether the drawer of a check has a sufficient amount to his credit, he should inquire of the bookkeeper keeping the depositor's account before paying the check, and be governed accordingly. If necessary to refuse payment of a check, he should simply say that the account is not good for amount of the check, and the bank is under no obligation to inform the person presenting the check how much, if anything, the drawer of the check has to his credit in the bank, unless the check is presented by the drawer or his proper representative. If the teller has any doubt as to the genuineness of the signature, he should carefully compare it with the signature of the drawer on file in the bank. In case a bank pays a check on a forged signature it must bear the loss so incurred. If a check is payable to the order of a certain person and is presented by that person, the teller, if he does not personally know him, should require him

to identify himself as the right person through some other person known to the teller, and to endorse the check before it is paid. If a check drawn to order and endorsed is presented by some person other than the endorser, the teller should satisfy himself that the endorsement is genuine, that the check is in proper hands, and further, require the person presenting it to endorse it also. Especial care should be exercised by the teller in cashing checks drawn on other banks for customers to see that they are apparently good; and all such checks cashed, whether or not payable to order, should be endorsed by the person receiving the money for them. As the teller pays a check he should enter the name of drawer and amount in a memorandum book, separating checks on other banks from checks on his own bank, and should stamp it "paid" with a rubber stamp bearing also the name of the bank and the date of payment. Before leaving his custody, all checks on his own bank should be cancelled, so as to prevent improper use of them in dishonest hands. During the day checks paid should be charged up to the accounts of depositors on the individual ledger by the bookkeeper, who should make his entries from the checks themselves. At the close of business the teller should foot up his memorandum of all checks, etc., paid or cashed during the day, and deduct the amount of same from the amount of cash on hand at the beginning of business; the balance remaining should be represented by actual cash, checks, or memoranda on hand, which he should verify by actual count. After receiving all cash, checks on other banks, post-office orders, etc., from the receiving teller, he should make a final state-

ment of the day's transactions and of all cash, checks, etc., in his custody, in a book, in printed form something like the following:

PAYING TELLER'S BALANCE BOOK.

Monday, March 30, 1896.

Balance—cash on hand, close of business, March 28				$150	422	73
Amount received from receiving teller, close of business, March 30.				25	709	94
Total				$176	132	67
Deduct:						
Checks on bank, paid and charged up	$50	475	42			
Exchange on foreign banks, remitted for collection	10	563	94	61	039	36
Cash balance on hand, close March 30, as follows				$115	093	31
Exchanges for clearing house	16	571	55			
Checks and cash items	4	592	41			
Nickels and cents		105	85			
National bank notes	1	045	00			
Silver—dollars, $325; fractional, $642.50		967	50			
Silver certificates	20	715	00			
Gold—coin, $5,075; certificates, $10,500	15	575	00			
Gold—clearing house certificates	5	000	00			
Legal tender notes	40	521	00			
U. S. certificates for legal tender notes	10	000	00			
Total	$115	093	31			

The teller should not be allowed to pay the check of any depositor not having the amount to his credit on the ledger, or to pay any money to any employe or officer of the bank on account of salary without express or special permission of the managing officer of the bank, and his cash should be kept clear of all overdue notes, dishonored checks, and other memoranda which are not immediately convertible into money.

The totals of transactions in his cash, showing checks paid, balance of cash on hand, and checks turned over to correspondence clerk, if any, should be reported directly by the paying teller to the general bookkeeper, who should compare

the figures so reported with similar totals reported by the individual bookkeepers, receiving teller, correspondence clerk, and any other clerk reporting transactions connected with the cash.

Exchanges for Clearing House.

Wherever there is a group of banks located, the usual custom is to form what is known as a "Clearing House Association," for the convenience of exchanging checks on each other received during the previous day's business, and paying the balances to or from such banks resulting from such exchange, and such checks are called "exchanges for clearing house." Each bank assorts such checks at the close of business, makes a list of same, and sends the checks and lists at some stated hour the next morning, by a representative, to the "clearing house," where such an exchange of checks between the different representatives is made that each receives all the checks drawn on his bank. These are then footed up by each representative and the amount is given to the "manager" of the clearing house, who tabulates the results. If any bank receives its own checks to an amount greater than the total of checks on other banks it has brought to the clearing house, then it owes a balance, or is said to be debtor to the clearing house. If the amount of checks received is less than those delivered, than a balance is due to the bank, or it is creditor at the clearing house. The total of the balances due *from* the "debtor" banks will always be equal to the total of balances due *to* the "creditor" banks. As soon

as these balances are determined, each bank representative takes its checks back to the bank for examination as to their genuineness and goodness. If any prove to be forged, or improperly endorsed, or drawn for an amount exceeding the balance to the credit of the drawer, they should be sent back to the clearing house at a later hour agreed upon for paying and receiving balances, called "settling," to be returned to the banks from which they were received. After changes in the balances, made necessary by such returns, if any are made, the debtor banks pay the manager the balances due by them, and he immediately uses the money so received to pay the balances due to the creditor banks. The kind of money in which balances are settled at the clearing house is usually such as is agreed upon by the banks forming it. Sometimes settlements are made in what are called "clearing house certificates," representing gold coin or some other form of money specially deposited by the banks receiving same with some bank or banking institution which undertakes the safe-keeping of such money and the issue and redemption of certificates for same. The advantage of such certificates, where transactions are large, is that they save both the expense and risk which would be incurred in carrying the actual coin or money represented by them, and this also is the chief advantage of the clearing house system. Where a bank is not a member of the clearing house, the other banks are under the necessity of sending a messenger to the bank to exchange checks and settle balances, with all the labor and risk resulting therefrom.

Individual Ledgers.

The ledgers in which accounts with depositors are kept are called "individual ledgers," and in the keeping of these the greatest accuracy, simplicity and clearness should be attained. They should be so kept that the balance of each depositor's account may at any time be readily seen, and they should be frequently balanced to verify their correctness. The only evidence of the bank's liability to him held by the depositor of money on open account in the ordinary way are the figures entered by the teller in his pass-book when a deposit is made, and the best and most conclusive proof of the correctness of the depositor's account on the individual ledger is the actual comparison of the amounts entered in his pass-book with the amounts credited to him on the ledger. All pass-books should therefore be frequently called in by the bank, and after the checks paid by the bank are entered therein, the difference between the total of checks paid and deposits received should agree exactly with the balance to the credit of the depositor's account on the ledger. To make this test of correctness most valuable, the comparison of the pass-book with the ledger should be made by some person who is not the keeper of the ledger. As serious defalcations have occurred through lack of this precaution, it is very essential that it be taken in every banking institution.

One good form of individual ledger is what is called the three-column or balance column ledger, because it has a column for checks paid or other debit entries, one for deposits

or other items credited, and a third for showing the balance after each entry or the day's entries are made in the account.

The following is a specimen of an account in such a ledger, showing debits, credits and balances:

FORM BALANCE COLUMN INDIVIDUAL LEDGER.

HENRY BROWN.

Date.		Items.	Debits.	Credits.	Balance.
1896 Mar.	10	By deposit	... ...	235	... ...
		To checks 10			
		15			
		20	45	... ...	190
	11	To checks 20			
		30.32	50 32	... .	139 68
	13	By deposit	... ...	500	640 18
	15	By deposit	... ...	400	1 040 18
		To checks 50. 60			
		40. 30			
		10.50 19	209 50	... ...	830 68

The advantages of this ledger are that a transcript of any account, when needed, as when the items of checks paid have to be entered in the depositor's pass-book, is more readily made, and it is more convenient for comparing the credit entries in the pass-book. While it shows the balance of each account whenever it changes, still, proof of the totals of all balances can be made only by taking them off on a sheet or in a book and adding these together. A ledger of this kind should be proved in this way at least once a month. The aggregate of these balances should, if there is no error in the ledger, equal the balance of individual deposits on what is known as the general ledger, described further on.

Another form of ledger is called the "Boston," "skeleton," or "daily balance." This also has three columns, viz., debit, credit and balance columns, but instead of showing the en-

tries in any account below each other, running from top to bottom of the page, the names of the depositors are arranged one under another from top to bottom of the page, and the account of each depositor is carried horizontally across the page, the entries in each account for any stated date being made in a column bearing such date at the head. The following is a specimen of such a ledger:

FORM DAILY BALANCE LEDGER.

NAMES.	*Mar. 9*	*March 10, 1896.*			*March 11, 1896.*		
	Balances.	*Debits.*	*Credits.*	*Balances.*	*Debits.*	*Credits.*	*Balances.*
J. Adams	203 50	50 20	400	533 50	321 40 52	.... ..	171 98
H. Brown	420 92	400 50 22	300	270 70	150 21	65	164 70
T. Smith	2 03	200	533 45	335 45	400 62	326	199 45
Totals	626 45	.... ..	.... ..	1 139 65	.... ..	.... ..	536 13

The chief advantage of this ledger is that it affords opportunity for making a daily proof of the balances shown on it, and of comparing same with balance of individual deposits shown by the general ledger. In this way the correctness of each day's work is tested by itself, and errors made in the postings are more readily found than when a ledger is proved but once a month. It is not as convenient for writing up and comparing pass-books, and involves more labor than the balance column ledger, because the balance of each and every

account, whether it has changed or not, has to be carried forward to the next day's column before the ledger can be proved.

A form of ledger recently patented, known as the "Rand's Patented Individual Ledger and Index Book," manufactured by the Rand Ledger Co., North Tonawanda, N. Y., appears to combine the best features both of the "balance column" and "daily balance" ledgers, as it is substantially the balance column ledger divided into sections of twenty or more leaves by a leaf of stiff cardboard, the margin of which projects beyond the leaves, upon which margin are metal slides, into which slips of paper bearing the names of depositors are first inserted, space being left at the outer end of each slide sufficient to contain a slip of paper, upon which the balance of the depositor is written. Every time any balance changes the slip is removed and a new slip, showing the changed balance, is inserted instead. The device admits of making a daily proof of all balances, and still saves the labor of carrying forward those balances which have undergone no change during the day. Full information can be obtained from the company making these ledgers.

Whatever kind of individual ledger is used, deposits or other entries should be made by the bookkeepers from the "deposit tickets" furnished by the receiving teller, and debits should be made from checks paid by the paying teller or deposited with the receiving teller. All entries when made should be checked, if possible, by some other person than the keeper of the ledger, and the bookkeeper should aggregate the credits and debits entered for the day and compare his

aggregates with the receiving and paying tellers' totals of deposits received and checks paid, respectively. Where there are two or more individual ledgers, the bookkeepers should be made to change ledgers from time to time, or be "rotated," as a further check to possible fraud or dishonesty. When the balance column ledger is used, some additional safeguard is afforded by having some person other than the bookkeeper take off a trial balance unexpectedly and without previous notice; but the most efficient check is the frequent and constant comparison of depositors' pass-books with their accounts on the ledger by some person other than the bookkeeper, as already recommended.

Discount Clerk's Work.

All paper representing loans and discounts made by a bank, after having been authorized by the directors or the discount committee, should be numbered sequentially, so as to give each piece an individuality by which it might afterward be known and traced, if necessary. If possible, this numbering should be done with an automatic stamping machine. After this, each loan or discount should be entered, in the order of its number, in a book which will show a record of its number, date of execution, the name of maker or makers, the name of endorser, acceptor or guarantor, date of maturity, amount of face of note or draft, amount of discount deducted or of interest added, with a blank space after these data for making any additional remarks found necessary.

For collateral paper a separate record should be kept, including a description of the collateral described in each note, in addition to other data; and still another separate record for all demand paper, whether or not secured by collateral.

After this is done the demand paper should be kept in a separate package, arranged alphabetically, and the time paper, whether secured by collateral or not, in a package or packages arranged in the order of date of maturity.

The certificates of stock, bonds, etc., held as collateral for each loan should be placed in a separate envelope of stout manila paper, large enough to hold the collateral easily, and the envelope should have a printed form on one end for noting the necessary data with regard to the collateral placed in the envelope and the note secured by same.

These envelopes should be arranged either in alphabetical or numerical order for easy reference, and placed under lock in the custody of one person, who should be responsible for their safe-keeping. They should be verified by actual examination from time to time, and great care should be taken to replace each certificate, bond, etc., in its proper envelope after examining same. Whenever any change is made in the collateral lodged for any loan, the change should be noted in the collateral note and on the envelope, and the maker of the note, or his representative, should receipt to the bank on the discount register for any collateral surrendered by the bank, as well as upon the note itself. At the time of making the loan, care should be taken to see that any certificate of stock or registered bond is properly assigned in blank on the certificate or bond by the signature of the owner, attested by

that of a witness, or on a separate printed blank used for this purpose.

All entries of loans and discounts made in the discount register should be verified by some person other than the clerk keeping this, as well as all computations of interest or discount thereon; and where interest is not credited until the payment of the note, particular care should be taken to see that the proper and full amount paid is credited on the books of the bank, as the lack of this precaution leaves open a door for dishonesty.

All time paper should also be entered, according to date of maturity, in a "discount tickler," showing, day by day, the number of the note or draft, the maker or payer, and the amount, including interest when not included in face of note.

Notice of maturity should be made up from this tickler, and mailed to the maker or payer of each note or draft at least a week or ten days before maturity, after the following form:

Maturity Notice.

MR. JAMES BROWN.

Your note for.....	$100 00
With interest.....	3 00
	$103 00

Will be due April 20, 1896,
at
First National Bank,
Albany, N. Y.

Checks offered in payment must be duly certified.

Where a bank has customers to which it grants a line of loans or discounts, it should also keep a "credit ledger," with an account for each maker, payer, and endorser, to which are to be posted the number, date, name of maker, payer, endorser, amount and other data respecting any paper loaned on or discounted by the bank. The value of such a record is to show at all times the total amount the bank has at risk to any maker, acceptor or endorser of paper held by it.

If the discount clerk receives payment for loans and discount paid, he should keep a memorandum of each piece of paper paid, including interest, if any, and at the close of the day make a statement of total amount received, report same to the general bookkeeper, and turn over all money, checks, etc., to the paying teller. No check should be received in payment of any maturing paper, unless it is duly certified, except from a depositor in the bank having the money to his credit. Any paper owned by the bank, or held by it for collection, which is not paid on day of maturity, should be turned over at the close of business hours by the discount clerk to a notary public to be protested, whenever this is necessary. An examination and verification of all loans and discounts on hand should be made at least once a month, to prove whether the amount on hand agrees with balance shown by general ledger.

Mail Clerk's Work.

As a bank usually receives by mail a large number of checks, drafts, etc., for collection or in payment for items

forwarded to other banks for collection, the opening of the mail is an important matter and should have careful attention. As each letter is opened its contents should be carefully examined and checked off on the letter of advice. This done, the contents should be disposed of as follows: All checks on the bank itself should be turned over to the receiving teller to be entered on his books, and by him turned over to the individual bookkeepers, to be charged up against depositors' accounts; checks on clearing-house banks should also be turned over to the receiving teller to be sent through the day's clearings; checks and drafts on other banks or parties in same place should be presented, by messenger, for collection or acceptance on same day, and checks and other cash items on out-of-town banks or parties forwarded promptly by mail the same day for collection. Time items for collection should be turned over to the discount clerk to be properly entered in a separate book, like the discount register, kept for this purpose, and to be treated with the same care and attention as paper owned by the bank, but kept entirely separate and apart from same. The letters containing the necessary data with regard to all items received by mail should be turned over to the general bookkeeper, and the mail clerk should furnish to each employe to whom he delivers the items a memorandum giving the necessary data with regard to the various items and the disposition of same, so that "credit" or "charge" slips may agree with the data contained in the letters of advice. At the close of the day's business each bank or party from whom either remittances or collections are received should be advised by mail of such

receipt, and where items have been collected with instructions to remit, remittances for same by mail or express, as requested, should be made also. Prompt attention to this feature of business adds to the business and reputation of a bank, while a lack of promptness is apt to discredit it with parties entrusting it with collections.

Great care should be exercised to see that each letter of advice or remittance is carefully addressed, and that proper contents are enclosed in each letter. In the case of a regular correspondent, stamped envelopes bearing its printed address and the imprint of the sending bank save time and secure accuracy.

Copies of all such letters of remittance should be retained, from which the proper entries may be made by the general bookkeeper.

Exchange Clerk's Work.

As an important branch of a bank's business is to sell drafts or checks on foreign points, in a large bank this occupies the time of one or perhaps more clerks, whose business it is to fill out the drafts or checks on other banks or bankers, have them signed by the proper officer (usually the cashier or assistant cashier), and receive and turn over to the proper teller the money or checks received in payment.

If the drafts or checks are bound in book form with stubs, the exchange clerk, before drawing the draft, should enter the necessary data in the stub, from which the general bookkeeper may make his entries during the day or at its close.

At present, however, some banks prefer to have the drafts numbered sequentially, put up in pads of 50 or 100 each, and to use, in connection with this, a book printed in the following form, in which to enter the necessary data instead of in the stub:

DRAFTS ON CITIZENS' NATIONAL BANK, JONESVILLE, OHIO.

Date.		*To Order of*	*Amount.*	*Number.*
Mar.	20	Henry Jones & Co	1 051 20	1,000
	21	J. Smith	22 25	1,001
	22	S. Brown	500	1,002
		J. Smith	4 500	1,003
		Henry Jones & Co	2 500	1,004

The advantages of such a record are that it is much more compact than a book with stubs and is much more convenient for making up an account current for the correspondent bank on which the drafts are drawn, or for comparing an account received from such a bank.

Stock Ledger.

When all the capital stock of a bank has been paid in, and the stock certificates issued to the shareholders, the record of such certificates and all future transfers of same should be recorded in a book called the "stock ledger," which, when properly posted, will show in a separate account for each shareholder the exact number of shares issued to him and standing in his name. The data for the entries in this ledger

should be taken from the "stub" of every certificate of stock issued from the "stock certificate book." Before any certificate is issued, entries should be made on this stub to show its number, the date of issue, the number of shares, the name of the shareholder, and his receipt for the certificate; and when it represents a transfer of stock the stub should also show the number of the old certificate replaced by the new, the name of the shareholder who owned it, and the number of shares represented by it. From these data entries should be made in the stock ledger in the following manner:

STOCK LEDGER FORM.

JOHN JONES.

			No. Shares.	Amount.				No. Shares.	Amount.
1896 Feb.	10	To Cert. No. 1.....	10	1,000	1896 Feb.	1 10	By Cert. No. 1..... " " " 49.....	10 5	1,000 500

ROBERT SMITH.

			No. Shares.	Amount.				No. Shares.	Amount.
					1896 Feb.	10	By Cert. No. 50.....	5	500

These entries mean that John Jones, as one of the original shareholders of the bank, on February 1 paid $1,000 for 10 shares, for which stock certificate No. 1 was issued to him, and that on February 10 he surrendered certificate No. 1 for transfer on the books of the bank, in the place of which the bank issued two certificates, one, No. 49, for 5 shares in his own name, and the other, No. 50, for 5 shares in the name of Robert Smith, to whom they had been sold by Jones. The figures entered in the column headed "Amount" should always represent the par value of the stock.

The aggregate of the number of shares standing to the credit of each shareholder, and the par value or "amount" of same, should always be equal to the total number of shares issued and the total capital stock of the bank, and the correctness of the entries in this ledger should be tested by balancing the accounts in it once a month, unless no transfers have been made during this period.

General Bookkeeper's Work.

This should be entrusted to a reliable and competent accountant, for it is on the "general ledger" of a bank that its business should be simply and faithfully recorded, and this is the common centre to which the condensed results of all transactions on auxiliary books should converge. The business of a commercial or National bank is usually embraced within the following "general" accounts, showing its resources and liabilities, which, if the books are correctly kept, should always balance each other in amount:

Resources.	*Dollars.*	*Cts.*	*Liabilities.*	*Dollars.*	*Cts.*
Loans and discounts...			Capital stock paid in..		
Overdrafts.....			Surplus fund.....		
U. S. Bonds to secure circulation.....			Undivided profits, less current expenses and taxes paid.....		
U. S. Bonds to secure deposits.....			National Bank notes outstanding.....		
U. S. Bonds on hand...			State Bank notes outstanding.....		
Premiums on U. S. Bonds.....			Due to other national banks.....		
Stocks, securities, etc.			Due to State banks and bankers.....		
Banking house, furniture and fixtures..			Dividends unpaid.....		
Other real estate and mortgages owned...			Individual deposits....		
Due from other national banks.....			United States deposits.		
Due from State banks and bankers.....			Deposits of U. S. disbursing officers.....		
Due from approved reserve agents.....			Notes and bills rediscounted.....		
Cash.....			Bills payable.....		
Redemption fund with Treasurer U. S.			Liabilities other than those above stated..		
Due from Treasurer U. S.....					
Total.....			Total.....		

In addition to these accounts, an account should of course be opened for every correspondent bank with which business is done, and where there are many of such banks, their accounts should be kept in a separate ledger, known as a "bank ledger." If the number of such is not great, then accounts may be kept in the same ledger as the "general" accounts. At the close of the day the entries should be made in these accounts by the general bookkeeper from memoranda in letters or on "credit" and "charge" slips furnished him by the individual bookkeepers, the tellers, the mail clerk, the note or discount clerk, exchange clerk and other employes; and before making his entries he should see that the various credits and debits agree with and offset each other. The entries in most active accounts usually are simply the totals representing the transactions in each account during the day, such as loans and discounts, cash, individual deposits, etc., but the bank accounts should be posted so as to show the nature of the various entries during each day, whether drafts paid or drawn, remittances received or made, collections forwarded or received, interest charged or credited, and the like. If drafts on banks are drawn from stubs, then the number and amount of each draft should be entered in the bank's account on the ledger for convenience of making or checking accounts current with the bank.

The "profit and loss" account, into which all subordinate profit, loss and expense accounts should be covered at the end of each dividend period, should be kept by periods so as to show the balance on hand at end of the previous period on the credit side with the profits from various sources on the

same side, and on the debit side, the losses charged off (if any), expenses, taxes, dividends paid (if any), and the balance remaining on hand carried down to the beginning of the next period on the credit side, after the following form:

PROFIT AND LOSS.

1896						1895					
June.	30	To Salaries	10	536	75	Dec.	31	By Balance	10	020	32
		" Expenses	6	931	56	1896					
		" Taxes	1	050	75	June.	30	" Discount	20	131	62
		" Losses		754	60			" Interest	5	041	75
		" Dividend No. 5	5	000	00			" Exchange		503	65
		" Balance	12	195	64			" Premiums		100	54
								" Rents		671	42
			36	469	30				36	469	30
						1896					
						June.	30	By Balance	12	195	64

General Statement.

In order to prove the correctness of the general ledger, and at the same time make an exhibit of the condition of the bank's affairs, a trial balance of each and every account on this ledger should be frequently made.

If these accounts are kept in a daily balance ledger, already described, then this balance will be made every day; but if kept in the "three-column" or "balance column" ledger, then a "general statement" book should be provided for showing these balances.

This book should show the resources and liabilities in printed form, like that given on page 131, and in addition the balance due to or from each correspondent bank or banker with whom business is done, the sum of which balances

will represent the amount due from other banks or bankers, or due to them, as the case may be. With the name of each general account, and of each bank and banker, printed in such a book, the figures representing the balance of each account on the general ledger can be written in opposite the printed title, and much labor is thereby saved.

CHAPTER XIV.

Other Suggestions.

A COMPETITION in banking compels the doing of many things involving clerical labor and expense, for which no direct charge can be made, much economy can be effected by adopting simple methods of bookkeeping, and by a liberal use of printed forms, in addition to those recommended or suggested in this outline of bank bookkeeping and administration.

One very important principle which should be applied systematically and universally to all the work done in a bank is that of having the entries and work of each officer or employe examined, checked, and verified each day by some other officer or employe, for this will go very far toward insuring greater accuracy and preventing dishonesty. On this line the writing up of pass-books by a clerk who does not keep the individual ledger, and the verifying or reconciling accounts current received from correspondent banks, by someone not filling out or signing the drafts, or conducting the correspondence, are very important, and a teller should never be allowed to keep the individual ledger.

One device which has effected a great saving of labor in bank work is the Burrough's Registering Accountant, sold by American Arithmometer Co., St. Louis, Mo., which, by the operation of a keyboard like that of a typewriter, prints the figures in a column, on a roll of paper, and at any desired

point, by the turn of a crank, shows the sum resulting from the addition of the figures, with absolute accuracy. Experience shows this machine to be especially valuable and useful in making out lists of checks for clearing house, writing up checks for balancing pass-books, taking off balances from "three-column ledgers," and whenever similar work is to be done.

A great improvement on the old system of having depositors write their signatures in a book is to take each signature on a card and to arrange these cards alphabetically, so that each signature is easily referred to. For this there are several patented devices.

In conclusion, it should be understood that the information and suggestions contained in this chapter are given only as a bare outline of what is regarded as a good and safe system, the details of which must be worked out and adapted to the varying needs of each particular case.